TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1987

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

SUBCOMMITTEE ON THE TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS

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PART 1

DEPARTMENT OF THE TREASURY

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TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1987

TUESDAY, FEBRUARY 25, 1986.

DEPARTMENT OF THE TREASURY

FINANCIAL MANAGEMENT SERVICE

WITNESSES

GERALD MURPHY, FISCAL ASSISTANT SECRETARY, DEPARTMENT OF THE TREASURY

WILLIAM E. DOUGLAS, COMMISSIONER, FINANCIAL MANAGEMENT SERVICE

MARCUS W. PAGE

Mr. ROYBAL. All right. The Committee will now hear the Financial Management Service with regard to their budgetary request for 1987.

Mr. Murphy, I think you are the one to start off the discussion.

Mr. MURPHY. Thank you, Mr. Chairman.

I appreciate the opportunity to discuss the fiscal year 1987 resource requirements for the Financial Management Service.

The Service is continuing its efforts to fulfill its responsibilities as the Government's central financial manager. Toward this end the Service has undertaken many modernization efforts aimed at increasing the Government's use of automated and electronic systems to improve Federal financial management. The FY 1987 budget request includes funds to continue these modernization efforts as well as undertake several new initiatives. These efforts will yield savings of $1.3 billion in FY 1987. Interest earned from the Treasury Tax and Loan Program will account for another $781 million in revenue, establishing the Service as a major profit center generating far more revenue than it spends.

Of the amount requested in FY 1987, $9.9 million are necessary for the continuation of our modernization efforts, including $4.4 million for financial operations, $3.4 million for financial information—which includes a Governmentwide financial information data base—$1.7 million for financial management policy, including activities that resemble those of a corporate comptroller, and $.4 million for resource management.

Another $2.5 million will allow the Service to complete its headquarters consolidation project. Because many of our FY 1987 initiatives are related to other projects, planned and ongoing, failure to fund our FY 1987 budget would break the continuity of our efforts and jeopardize our ability to realize significant savings. To accom-

plish these goals, we have identified the FY 1987 resource requirements as $251,117,000 and 2,294 average positions.

That concludes may prepared statement on the Financial Management Service appropriation request. Mr. Chairman, I would now like to turn to Commissioner Douglas of the Financial Management Service.

Mr. DOUGLAS. Good morning, Mr. Chairman and members of the Committee.

As the Fiscal Assistant Secretary mentioned, the Financial Management Service has identified its resources requirements for Fiscal Year 1987 as $251,117,000 and 2,294 average positions. This request represents an increase of $6.5 million over our Continuing Resolution funding for Fiscal Year 1986 and $17 million over the Gramm-Rudman-Hollings funding level for the same year. Although it provides for no increase in average positions, it will allow us to continue our systems modernization efforts that, when complete, will generate millions of dollars of savings to the Government.

Mr. Chairman, in the interest of time and with your permission, my general statement for the record, I would like to submit my general statement for the record, and address any specified questions you may have on our appropriation request.

Mr. ROYBAL. Without objection, it will be ordered.

[The prepared statement of William Douglas follows:]

Department of the Treasury
Fiscal Service
Financial Management Service

Statement of William E. Douglas
Commissioner
for Presentation to the Subcommittee of the
Committee on Appropriations

General Statement

Mr. Chairman and members of the Committee, I am pleased to have this opportunity to present the Fiscal Year 1987 resource requirements of the Financial Management Service. I would also like to direct your attention to the part we play in assuring that American taxpayers receive an excellent return on their investment.

The cornerstone of the Financial Management Service is its mission "to promote the financial integrity of the United States Government through sound money management on behalf of the public". The key to accomplishing this mission is our ability to effectively manage the movement of Federal funds, and to make optimal use of Federal financial information. Service responsibilities stem from our obligation to the public, and our commitment to excellence on their behalf.

As manager of the majority of Federal cash movement, the Service controls more money than any organization in the world. We process $2 trillion in payments and collections annually. Producing and managing this huge volume of payments and collections require approximately 87 percent of our total resources. Most of the remaining 13 percent is directed toward carrying out central accounting and reporting functions for the Government.

The Service is requesting $251,117,000 and 2,294 average positions for Fiscal Year 1987. This request represents an increase of $6.5 million over our Continuing Resolution funding for FY 1986, and $17 million over the Gramm-Rudman-Hollings funding level for FY 1986. Our resource request, which does not contain any increase in average positions, will allow us to continue our systems modernization efforts which when complete, will generate significant savings to the Government.

The Service does not consider its appropriation request to be an expenditure but, rather, an investment with a high rate of return. Our efforts to improve cash and credit management techniques, as well as the development of more efficient payment and collection systems have been significant factors in reducing the Government's need to borrow money. In FY 1985 alone, these efforts eliminated $1.1 billion in interest payments in addition to $976 million interest earned from the Treasury Tax and Loan Investment Program. This was eight times more than our FY 1985 appropriation request of $246 million. Between FY 1986 and FY 1991 interest savings are expected to reach a cumulative total of $11.6 billion. In short, for every dollar appropriated to the Service in FY 1985, we return to the Government $8.00 in savings. In FY 1987, we expect total savings to be $2.1 billion. Interest earned from the Treasury Tax and Loan Investment Program will account for $781 million, and interest savings directly tied to Service efforts to more effectively manage the Government's money will increase from $1.1 billion to $1.3 billion.

In the last few years, the Service has undertaken many modernization efforts aimed at increasing the Service's use of automated and electronic systems to improve the Government's

financial systems. The FY 1987 resource requirements include funds to continue these modernization efforts as well as undertake several new initiatives. These new efforts are designed to expand the use of automated technology while minimizing risks and vulnerabilities, emphasize cost efficiency while providing quality service to the public, and improve Federal financial management.

The Service's request is divided into six functional areas as well as an administrative function. The functional areas will be addressed in the following order: (1) Field Operations; (2) Headquarters Operations; (3) General Financial Services; (4) Federal Finance; (5) Reimbursement for Banking Services; and (6) Information Systems.

Field Operations

The Field Operations activity requires $134,433,000 and 916 average positions for FY 1987. This activity is by far the largest operating entity in the Service. Over half of the Service's resource requirements and 40 percent of its average positions are concentrated in the Field Operations area. Of considerable significance is the fact that 61 percent ($81 million) of the resources requested go to pay postage costs. The Financial Management Service will issue over 560,000,000 payments to Social Security, Supplemental Security Income, Veterans and recipients of other Government benefits in FY 1987. These payments represent roughly three quarters of the 725,525,000 payments issued by the Service.

A significant aspect of Public Law 99-177 (The Gramm-Rudman-Hollings Act) is that it exempts from sequestering the benefit payments of a vast majority of our recipients. However, it does not protect the monies required to produce and mail these payments, nor does it make provisions for related payment processing costs such as handling of claims on lost or stolen checks.

As EFT payments continue to increase, and the Service moves closer to fully automated payment systems, the need for more comprehensive security measures becomes a pressing issue. Although the Financial Management Service has not suffered any financial loss from security breakdowns in our electronic payments systems (this is supported by audits and reviews), we have identified important vulnerabilities in our operations which must be fully addressed. We have undertaken efforts to correct the problems and have made considerable progress in reducing our vulnerability to potential loss, but additional action is required. We have subjected ourselves to a rigorous and fully objective assessment of our operations, and the Service is committed to correct all weaknesses identified.

The new paper check provides more than a dozen built-in security features designed to inhibit duplication, alteration and counterfeiting. All check payments in the Service's seven Regional Financial Centers are scheduled to be converted to the new paper check processing system by April, 1986. Non-Treasury disbursed checks will be fully converted by December, 1986. In addition to the enhanced security benefits, conversion to paper checks will save the American taxpayers approximately $6 million annually.

Headquarters Operations

The Headquarters Operations activity requires $23,714,000 and 582 average positions in FY 1987. This organization is responsible for important financial control and integrity activities related to the Federal payment and collection processes, including check reconciliation and claims activities. It adjudicates and settles claims resulting from lost, stolen, or destroyed Government checks. It collects monies from parties whose liability to the United States results from improper negotiation of Government checks. Through the reconciliation process, $30 million in check payment overcharges and $56 million in bank reclamations are recovered annually on behalf of the Government. Moreover, millions of dollars of improperly classified collections are identified and properly credited.

The Service is substituting automated processes for its more paper-intensive functions wherever possible. We are replacing a 40 year old system to reconcile checks (600 million annually) with a modern, fully-automated one. The new system promises to be faster, much more reliable and capable of producing needed information.

General Financial Services

The General Financial Services activity requires $1,815,000 and 51 average positions in FY 1987. This activity provides financial services for approximately 100 trust and miscellaneous accounts, including the two Social Security Trust Funds, the two Medicare Trust Funds, the Unemployment Trust Fund, D.C. Government Loan accounts, the Synthetic Fuel Development Account, and the Airport and Airway Trust Fund. In addition, this activity provides for payment of domestic and international claims.

Federal Finance

The Federal Finance organization requires $15,533,000 and 338 average positions in FY 1987. This activity works with Federal program agencies to establish and manage efficient, cost effective cash and credit management programs and ensures the integrity of the Goverment's accounting, reporting, and other financial services. It provides assistance and technical support to all agencies which participate in the payments and collections processes, and to private sector users of Government financial information. Federal Finance develops, disseminates, and implements operating policies, regulations, and standards affecting all aspects of the Government's cash and credit management programs and its accounting, reporting, and financial management systems.

Cash and credit management and funds control functions account for substantial annual savings to the Government by reducing the cost of depositary services; minimizing the levels of cash held outside the Treasury; enhancing the daily utilization of funds, including the proper timing of disbursements; and accelerating the flow of receipts into the Treasury. Last year almost $2 trillion in cash flow was managed or influenced by this organization, and total savings from all sources exceeded $2 billion.

Reimbursement for Banking Service

Reimbursement for Banking Services requires $41,410,000 and one average position in FY 1987. This activity provides for fee payments to approximately 14,000 banks for maintenance of Treasury Tax and Loan accounts and Treasury General Account processing. Fee payments are made to banks for Federal Tax Deposits processed under the Treasury Tax and Loan Investment Program (total collections

approximately $660 billion) and Treasury, in turn, earns interest (approximately $1 billion) on funds held on deposit.

Information Systems

The Information Systems activity is requesting $34,212,000 and 406 average positions in FY 1987. Information Systems has responsibility for overseeing the development, implementation, improvement, and operation of financial systems which support our payment and collection activities as well as make possible effective money management in the Federal Government. In addition, Information Systems offers assistance, as needed, to other projects requiring systems development. As part of this process, Information Systems supports a large number of developmental efforts which will enhance the collections, payments, accounting, reporting, and resources management functions. A major thrust of these developmental efforts is to ensure that the Service's systems are integrated to the maximum extent to cut costs, increase effectiveness and eliminate redundancy. Its efforts are a major reason the Service has been able to save the American tax payer billions of dollars over the past several years.

Mr. Chairman, as stated earlier, our FY 1987 budget increase is $6.5 million over our Continuing Resolution funding level for FY 1986 and $17 million over the Gramm-Rudman-Hollings funding level. We are requesting this funding increase primarily to implement improvements and to continue developmental and systems design efforts. The total amount of program changes identified in our

budget for FY 1987 is $12,448,000 and it supports the Service's goals of assuring the effective and efficient operation of Governmentwide money management and delivery systems.

For FY 1987 we have identified seven major initiatives:

1. Financial Asset Management Program

This effort will expand and enhance Government collections programs which involve managing the systems by which Government collections are made; setting policy on the collection of funds; and ensuring that agencies adhere to standards established by the Deficit Reduction Act of 1984. We estimate that this effort will save the Government $653 million in interest for the period FY 1987 through FY 1981 through improved financial asset management.

2. Accelerated Delivery Systems

FY 1987 funding will allow us to purchase optical character recognition (OCR) systems, which we currently lease, to read and process paper checks, payment vouchers and non-tape issues.

These funds will also be used to increase the use of Direct Deposit/Electronic Funds Transfer (DD/EFT) by fostering greater agency commitment and by simplifying the enrollment process for benefit payment recipients. When accomplished, this effort will reduce the Government's $81 million postage costs by significantly increasing DD/EFT enrollment. This project will contribute to a $3.2 million postage savings in FY 1987 due to a reduction in the volume of payments mailed. Administrative costs for the Social Security Administration and other program agencies will also be reduced as more recipients enroll in Direct Deposit.

3. Security/FMFIA

We are requesting funds to continue a Servicewide security program that will more effectively comply with the existing directives and security requirements issued by the National Security Agency National Bureau of Standards and the Congress.

This effort will further ensure and guarantee that the Service will have the ability to continue vital functions under various hostile environments amd emergency conditions and, more importantly, to recover from such disruptive activities.

4. Quality Assurance Program

Funds are requested to implement a sound Quality Assurance Program which will ensure that automated systems are designed, implemented and maintained so that acceptable levels of accuracy, reliability and quality are "built-in" the systems rather than "added on." This effort will result in more efficient system designs resulting in less "debugging" during system testing and implementation phases. Beginning in FY 1988, it is projected that a budgetary savings of $685,000 per year will result from operational efficiencies stemming from a sound Quality Assurance program.

5. Financial Information Utilization

This project will support, monitor and implement improved central financial management reporting and analysis capabilities and establish a data base to provide more timely and accurate reporting on financial management activities. It will also establish sound financial

management policies and allow proper evaluation of the Federal Reserve Banks' compliance with fiscal regulations.

6. Headquarters Consolidation - Phase II

Last year the Congress appropriated funds that permitted the Service to move a large part of its headquarters operations from various Washington, D.C. locations to the Prince Georges Plaza in Hyattsville, Maryland (Phase I).

In order to successfully complete Phase II of our consolidation effort (movement of 500 employees into the Liberty Loan Building in Washington, D.C.), funding is needed. The Service will be incurring moving expenses and additional costs above the very basic renovations to be paid by the General Services Administration. The Liberty Loan Building is an extremely old facility and many upgraded renovations will be required due to the obsolescent design of the building. In addition to these relocation and renovation expenses, the Treasury Financial Communications System Control Center site must be relocated out of the Treasury Annex into the Prince Georges Center. Preparation at the new site, as well as the physical move of hardware must be completed without disruption of service.

7. Human Resource Utilization

The Service must ensure that all employees are equipped to handle the expansion of services and workloads in an ever changing work environment. This effort will provide employees, through retraining, with the needed skills to do

their jobs effectively and efficiently in an environment where the work methodology is changing dramatically. Our employees realize that their familiar ways of working are changing and they must learn new skills and methods. We believe that if the Service expects its employees to accept new challenges, it must assist in the upgrading of their skills.

Summary

The Government and the nation are at a financial crossroads. We must provide essential Government services while facing the responsibility and the task of reducing the Federal deficit through sound financial management.

The budget that we present to this Committee identifies our most pressing needs and requirements. We look upon our budget request of $251,117,000 and 2,294 average positions as an investment in sound financial management that will continue to yield growth and savings to the Treasury, the Government and the American people.

Mr. Chairman, your continuing confidence and support of our Service's programs are appreciated. I will be happy to answer any questions you may have.

BUDGETARY INCREASE

Mr. ROYBAL. Mr. Douglas, in your request you stated that it represents an increase of $6.5 million over the Continuing Resolution.

Mr. DOUGLAS. Yes, sir.

Mr. ROYBAL. But $17 million over the Gramm-Rudman funding level for FY 1986.

Mr. DOUGLAS. Yes, sir.

Mr. ROYBAL. But the truth of the matter is that it is $17 million over the FY 1986 spending level.

Mr. DOUGLAS. After the Gramm-Rudman cut, yes.

Mr. ROYBAL. All right. Which means, that this Committee will have to consider a $17 million increase in your budgetary request.

Mr. DOUGLAS. For Fiscal Year 1987 over 1986, that is correct, sir.

Mr. ROYBAL. Is that going to present a problem, if you know?

Mr. DOUGLAS. Mr. Chairman, it is an increase; however, I would be happy to give you some specifics of how that increase breaks down. In a number of those areas, the projects and initiatives that the money would fund will end up saving a substantial amount over costs. I am talking about hundreds of millions of dollars, not just small amounts.

SAVINGS TO THE GOVERNMENT

This past year, for example, in FY 1985, the Financial Management Service in its various cash management efforts produced interest savings to the Government of approximately $1.1 billion, and we also had interest savings through the Treasury Tax and Loan System of another $976 million.

In fact, the savings that we have projected for Fiscal Year 1987 are estimated at about eight times our total budget request for FY 1987, including the increase.

So we are a profit center for the Government, and not just a cost center. As you know, it does take some investment money to do some of the system changes and improvements that pay off in the long run for the taxpayer.

Mr. ROYBAL. This Committee presented a bill last year that was passed by both the House and the Senate. We agreed to it in conference. It was sent to the President, and the President vetoed that bill because it was over budget in three particular instances.

What you are requesting now is considerably more than the amount that was in that bill.

Mr. DOUGLAS. Yes, sir.

Mr. ROYBAL. How can we sell a $17 million increase?

Mr. DOUGLAS. Well, if we were asking you to give us $17 million to spend and there would be no return on that for the American taxpayer, I think you would have a very difficult time.

Mr. ROYBAL. Well, we had the situation in last year's bill where we recommended increases for revenue-producing departments, such as the Department of Customs, and that was vetoed.

Now, supposing the Committee did put in the $17 million. Do you have assurance that there will be no opposition from anyone?

Mr. DOUGLAS. Insofar as these funds are concerned, they have been reviewed both by the Department of the Treasury and by the Office of Management and Budget. The President supports our budget request.

Mr. ROYBAL. So you assume, then, that OMB does in fact support this increase.

Mr. DOUGLAS. Yes, sir. They have reviewed the budget and they have agreed to it.

Mr. ROYBAL. Well, we thought everything was in order last year, too.

However, that still is to be seen, and we will take a good look at this thing.

Now, your bureau touches the lives of million of Americans every month because you issue checks that many people depend on. Any changes that you make in this payment system will affect those millions of people.

PAYMENT AND COLLECTION SYSTEMS

What do you see in the future with regard to establishing a new payment system? I ask that because you have said that your modernization efforts, when completed, will generate millions of dollars of savings to the Government.

Mr. DOUGLAS. Yes, sir.

Mr. ROYBAL. Is this part of this modernization effort?

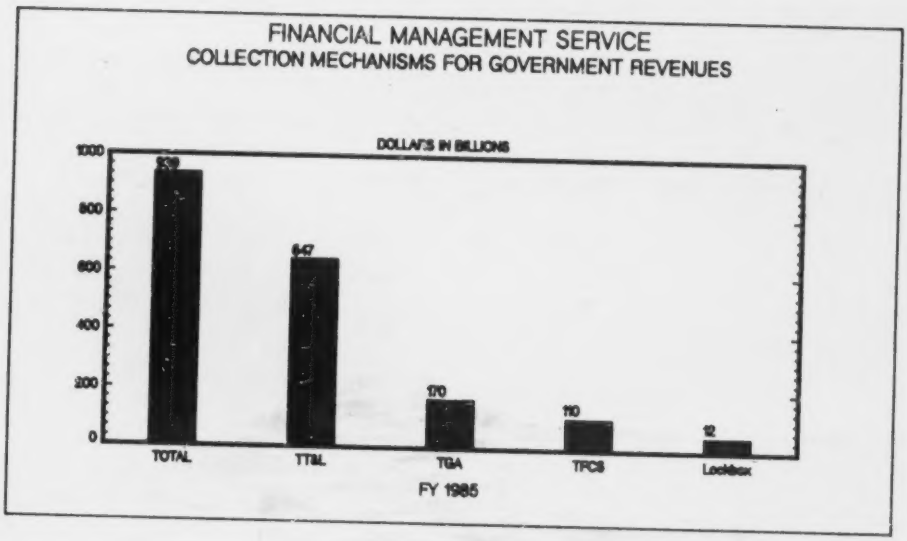
Mr. DOUGLAS. Yes, sir. Our modernization efforts have been on the payment side as well as collections, because we actually manage the systems and techniques for collections for the Government. Last year, for example, collections were about $939 billion. So we handle the collection side as well as the payment side.

Insofar as the changes, we discussed last year, we had a payment advisory group of experts from the private sector as well as Government. They looked at our systems, they looked at the future, and told us that essentially the kinds of technology that we were using were appropriate for another 10 years. However, particular systems improvements could be made, and we have continued to move in that direction. We are using electronics for payments in increasing numbers. We have the Treasury Financial Communications System which is used for large payments, and we have employed a variety of technological changes in collections.

COLLECTION MECHANISMS AND INTEREST SAVINGS CHART

In fact, I have a chart which indicates some of the different techniques that we have used in the collection area which use new technology. And as you can see, that bar on the left on the top chart, showing $939 billion, is the total Government collections received by the Financial Management Service. Some of the newer technology is in the Treasury General Accounts in which $170 billion was collected last year. Incidentally, we earned interest (the bottom chart) because of those improvements and earlier availability of funds to the Government. We saved the Government $192 million alone in the Treasury General Account.

[The charts follow:]


FINANCIAL MANAGEMENT SERVICE
COLLECTION MECHANISMS FOR GOVERNMENT REVENUES
DOLLARS IN BILLIONS
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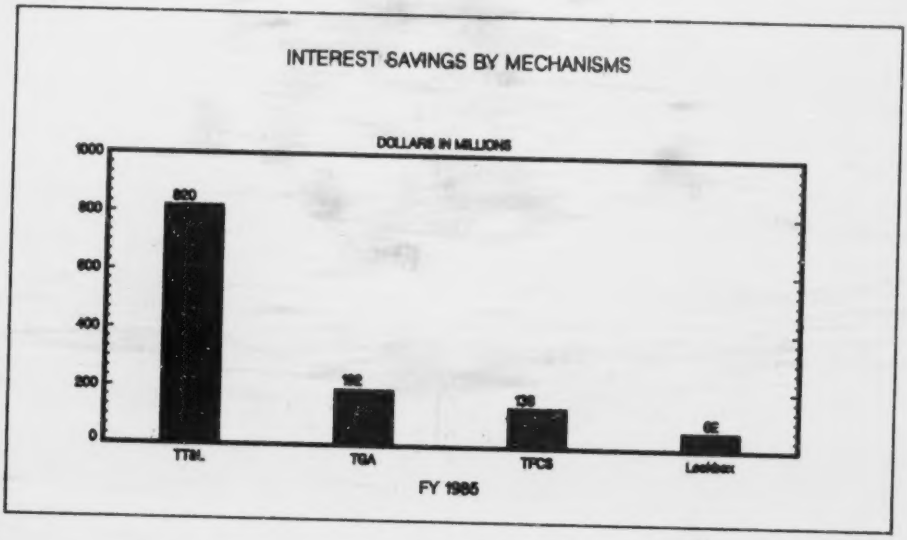
800
600
400
200
0
939
647
170
110
12
TOTAL
TTBL
TGA
TPCS
Lockbox
FY 1985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DOLLARS IN MILLIONS
1000
800
600
400
200
0
820
182
139
65
TTBL
TGA
TPCS
Lockbox
FY 1985

Mr. DOUGLAS. We have another new Lock Box process that Government agencies can use. We have set them up around the country, and $12 billion came in through that. And again, the Lock Box savings from that accelerated deposits for the Government was $62 million.

So we are using technology both in the payment side and the collection side, and we are continuing to make improvements in both areas.

PAPER CHECK

Mr. ROYBAL. All right. Now, in the payment side, when will you start issuing paper checks instead of the card checks?

Mr. DOUGLAS. Mr. Chairman, we have already begun the final phase of implementing the new paper check. The first paper checks nationwide for all Social Security recipients were issued in December.

This month we are beginning to send out paper checks for all income tax refunds across the country. In April we will convert Railroad Retirement Payments, Veterans benefits and disability payments, SSI payments and Government salary and retirement. All of those will be converted in April. So we already have taken the first steps, and we should have completed most of our conversion of Treasury checks by the end of April 1986.

Mr. ROYBAL. Do you anticipate any savings as a result?

Mr. DOUGLAS. Yes, sir, we do. Although the reason that we changed was primarily because the technology that was used to produce card checks is forty years old. The Government actually converted to card checks in 1945 and it is now an old, obsolete technology. The equipment was wearing out, the people who could maintain it were retiring, and this drove us primarily to our decision.

In addition, we have about a dozen security features in the new paper check which we did not have in the card check, and the cost of it is going to save the American taxpayer about $6 million each year. So it is a very major improvement in the payment side.

ELECTRONIC FUNDS TRANSFER

Mr. ROYBAL. Now, what about electronic funds transfers? What kind of savings would you get from that?

Mr. DOUGLAS. Compared to every check that we mail, for every electronic funds transfer that we make—say a direct deposit into a Social Security recipient's account—the savings is 22 cents.

It costs us 25 cents to produce and mail a check to a Social Security recipient. We are able to produce an EFT payment for three cents. So the net savings is 22 cents.

Mr. ROYBAL. Is there any effort being made to get to one system; that is, using the transfer system?

Mr. DOUGLAS. Yes, sir. We have for several years now had a very active public awareness campaign and have used the media successfully. We have gotten assistance from the Ad Council on a no-cost basis. We estimate that we get something over $50 million a year in free publicity on radio, television, public service announcements, and display cards in banks.

And this year we estimate our total volume for EFT will be, including Treasury-disbursed as well as non-Treasury, about 310 million transactions. So it is a very large number.

HEADQUARTERS CONSOLIDATION PROJECT

Mr. ROYBAL. I want to ask you one last question. And that is, what is the current status of the office consolidation in Hyattsville, Maryland?

Mr. DOUGLAS. It is going very well, Mr. Chairman. Unfortunately, there was a lot of construction to be done in the building, and, of course, construction always seems to take longer than the schedule calls for. But it is almost complete. We have moved in close to 400 people already, and we have another 400 to 500 people who will be moving in over the next 35 to 45 days.

Mr. ROYBAL. Would you say that it is half completed?

Mr. DOUGLAS. It is more than half now, yes, sir. In fact, we just moved a major computer in that building over the weekend.

Mr. ROYBAL. Mr. Skeen?

SECURITY

Mr. SKEEN. Thank you, Mr. Chairman.

I know you are aware of the New York Times story on the problems with the electronic funds transfer system.

Mr. DOUGLAS. Yes, sir.

Mr. SKEEN. Mr. Douglas, I am very much concerned with it. There have been two studies, one GAO has completed and the other the Treasury Department is working on. Could we get a copy of that report from the Treasury Department as soon as it is completed?

Mr. DOUGLAS. On the vulnerability study?

Mr. SKEEN. Yes.

Mr. DOUGLAS. Yes, sir. We could give you a copy.

Mr. SKEEN. Risk analysis?

Mr. DOUGLAS. It is the risk analysis. We have been asked by a subcommittee of the Government Operations Committee to testify for them, and they have also asked for a copy of the report. And I think it is being transmitted this week.

I am concerned that some of the details are very specific and there is a real concern about the sensitivity of the report.

Mr. SKEEN. I understand that, but evidently that is one of the reasons I am bringing this subject up.

Mr. DOUGLAS. Yes.

Mr. SKEEN. Because I would like for you to have the opportunity to get on the record what the situation is, and how concerned should we be with this issue, because evidently we have got a problem with security. When the losses could run, as estimated under one of these estimates, about fifteen-and-a-half million a year up through one-and-a-half billion, we are talking big numbers.

Mr. DOUGLAS. We are, but one of the problems with the new story, Mr. Skeen, was that——

Mr. SKEEN. Of course, we never have problems with news stories. [Laughter.]

Mr. DOUGLAS. The impression is losses have taken place.

Mr. SKEEN. No, but I want to emphasize the word "might."

Mr. DOUGLAS. Yes.

Mr. SKEEN. Because all these studies always mentioned that it possibly or might.

Mr. DOUGLAS. Right, In fact, we contracted for and we asked some people who are experts in the security area to come in and look at our systems and give us their best estimate of what our degree of vulnerability to potential loss was, and to look at worst-case scenarios and that sort of thing.

Mr. SKEEN. Yes.

Mr. DOUGLAS. And they did that, and, in fact, it was a very scientific risk analysis which considered about 70 weighted factors. They looked at what could happen under various scenarios. In some cases, they said a hypothetical situation might happen once every 300 years or this might happen once every 30 years or once every three years. The study is not based on actual events.

What they said was: if you look at the amount of money you have, and given these areas that we think you need to make some changes in, you have a potential loss of money. But we have had audits by GAO and our Inspector General, we have personally looked at such matters in internal reviews, and we have to date lost no money, not a dollar, through TFCS. We have the kind of controls in place that, had such a loss occurred, we would have recognized it even after the fact.

It is a matter of concern because that system handles well over a hundred and ten billion dollars in collections every year and almost three hundred billion dollars in payments each year.

Mr. SKEEN. Well, every time we increase the efficiency of the technology, you run into this kind of problem. And I am pleased that you are at least trying to get some kind of risk assessment.

Mr. DOUGLAS. Yes.

Mr. SKEEN. But it also makes a scenario where you suffered some 450 different security problems and 195 with the material.

Mr. DOUGLAS. Those numbers do not relate to that system, sir. And again, these numbers are confusing. We looked through the entire Financial Management Service, all of our internal controls, and all of our operations, including ones that have nothing to do with paying money. Out of all of that, including TFCS, we said there were 450 potential vulnerabilities and about 200 of them we thought were significant. The rest were relatively minor.

Mr. SKEEN. So they were just potential; they were not actual incidents?

Mr. DOUGLAS. That is correct, sir.

Mr. SKEEN. Okay.

Mr. MURPHY. And I believe the number related to the TFCS electronic system that the article was addressing was 14, not 450.

Mr. ROYBAL. Fourteen?

Mr. MURPHY. Yes.

Mr. ROYBAL. Yes. So much for news accuracy.

Mr. PAGE. Mr. Congressman——

Mr. SKEEN. Just Congressman is okay. I get nervous when somebody says "Mister." [Laughter.]

Mr. PAGE. The 14 items are against a possible 2,000 vulnerability points in TFCS as a system.

Mr. SKEEN. So it is an assessment of your total spectrum of possible infringements of security or breaches of security.

Let me ask you, one other question on the lost interest rate. It is also mentioned in the article about the timing of the payments. Is this also potential rather than actual, or are we actually losing $7.3 million annually because we pay prematurely in some cases?

Is this a potential loss?

Mr. PAGE. Yes.

The study speculated that individual agencies may send their payment requests early, and as a result of that, the TFCS system would pay them early. However, the system itself has a warehousing feature, which means that an agency can submit payment vouchers up to 30 days in advance of the scheduled date and payments are held until the date specified by the agency.

So it does schedule the actual payment per agency request.

Mr. SKEEN. So they are not actually made too early, then? The actual payment is not made except on a 30-day——

Mr. PAGE. No. As long as the agency's date is correct, it is paid properly.

Mr. DOUGLAS. But if the agency designates a date which is premature, then we will pay it on that date.

Mr. SKEEN. Yes, but they triggered it.

Mr. DOUGLAS. Yes.

Mr. PAGE. Right. Now, the other part of that was the study speculated that if TFCS is down for a day and if payments are not paid on time, then it would create interest lost. It would create an interest payment to the vendor.

Now, unfortunately, the contractor did not know that the Prompt Payment Act provides a 15-day grace period, so that interest lost is not correct.

Mr. SKEEN. It is not a real loss.

Mr. DOUGLAS. Yes, and incidentally, the reliability of the system is extraordinarily high. We have had it in operation I think 1,200 and some odd business days, which is four or five years, and it has been down one day out of that number.

Mr. SKEEN. How many days?

Mr. DOUGLAS. It is about 1,200 and a few days. And one day it was down, so I think that reliability record is extraordinary.

Mr. SKEEN. The next question I wanted to get into is relative to this budget request that you have now. You have built in some—did you and OMB get together on this.

Mr. DOUGLAS. Yes, sir. We have some the additional funding that the Chairman mentioned earlier that does involve some additional security measures, including some hardware measures as well as the people.

Mr. PAGE. That is $1.7 million.

Mr. SKEEN. That is $1.7 million, yes, but the lack of security is not directly related, then, to any problem as far as budgeting is concerned.

Mr. DOUGLAS. There is the reality of the budget process, and I am sure that we, like any agency, might have done some other things earlier if money was no object. Money obviously is an object, and it is not realistic to think that you can always get what you want.

Mr. SKEEN. Where you do spend your money, then your security is coming out as a rather high priority consideration.

Mr. DOUGLAS. Yes, sir. And, in fact, we have been giving a high priority to security for the last close to two years.

Mr. SKEEN. Security and efficiency, and obviously you have had good efficiency now from the fact of the security efforts.

Mr. DOUGLAS. Right.

Mr. SKEEN. I am just concerned about whether it was a lack of funds, is it anyone's estimation in the agency that we should be helping you attack this problem. Because if you have potential for losses or if the potential were there, they should be properly addressed. We will not be doing it here before it becomes a problem. So far you have had no actual losses that you know of.

Mr. DOUGLAS. No, sir. We have the controls that would indicate, even after the fact, if we have had a loss. So we feel pretty comfortable saying no losses at all have occurred under TFCS. That does not mean we are complacent. There are always a lot of people out there looking for ways to beat the system and you have to be constantly looking at security improvements and regularly reassessing your situation.

Mr. SKEEN. Well, it cites the examples here of some of your employees at home with their personal computers and things of this kind.

Mr. DOUGLAS. Right. But as it happened in the situation with the home computer, that person could only get into the developmental side of the computer files, and could not get into the operational payments side. In fact, the system goes down when the Federal Reserve takes down their Fed-wire system at about five o'clock each day. There was no access possibility and, that person could not access those files which involve money transfers.

Mr. SKEEN. Well, nationwide this is policy, I am sure.

Mr. DOUGLAS. Yes, it is.

Mr. SKEEN. Particularly on this aspect.

Thank you very much.

Mr. ROYBAL. Mr. Coleman.

Mr. COLEMAN. Thank you, Mr. Chairman. I apologize. I was with Mr. Addabbo at the other Subcommittee.

I am interested in 1986, in Fiscal Year '86 Congress appropriated 244.6 million and 2,294 permanent positions, as I understand for the Financal Management Service.

Mr. DOUGLAS. Yes.

Mr. COLEMAN. Then there was a sequestration of some ten-and-a-half million dollars and no staff positions were expected to be cut. Is that still correct?

Mr. DOUGLAS. We were cut the ten-and-a-half million dollars that you referred to, sir, and it was pretty much left to us where we would take that cut.

Now in, our cutting we have identified about 50 positions and said that we would leave them vacant as vacancies occur.

Mr. COLEMAN. So you are about 50 less.

Mr. DOUGLAS. Yes, sir.

Mr. COLEMAN. Now, then, for Fiscal Year 1987, the Administration proposes $251 million and 2,294 positions again, the same number.

Mr. DOUGLAS. Yes, sir.

Mr. SHEEN. That additional dollar amount, then, which is about 17 million over the sequestered amount or six-and-a-half million over the FY '86 amount, would your intention be to utilize those to fill those positions that you are not otherwise able to fill?

Mr. DOUGLAS. Yes, sir. We would go back to our regular staff level in FY 1987 if the funds were provided.

Mr. COLEMAN. And that amount of six-and-a-half million or 17 million over the sequestered amount would be sufficient?

Mr. DOUGLAS. Yes, sir. Although very little of that would go for salaries. Most of that would go for various initiatives and systems improvements.

Mr. COLEMAN. You anticipate having a total of 2,294 FTR's?

Mr. DOUGLAS. Yes, sir. We would hire up to our authorized staffing.

Mr. COLEMAN. How much of that additional 17 million over the sequestered amount would be for salaries, approximately? Just a ball park figure.

I want to try to get an estimate in terms of positions versus those others.

[Pause.]

Mr. DOUGLAS. About a million dollars.

Mr. COLEMAN. So in other words, the additional 16 million over the sequestered amount would be for those other functions, modernization and other things that you talked about earlier.

Mr. DOUGLAS. Yes.

Mr. COLEMAN. Thank you, Mr. Chairman. Those are all the questions I have.

Mr. ROYBAL. Mr. Wolf?

Mr. WOLF. Thank you, Mr. Chairman.

I do not have a lot of questions. I came back from another Committee to hit the Treasury Department people. I wanted to ask you, are you familiar with the Administration's tax proposal and also with the tax reform simplification bill? It is not very simplified, but would require Federal employees who now retire with a tax exempt annuity for the first three years to pay taxes on their retirement?

Mr. DOUGLAS. I am familiar only to the extent that as a potential retiree one of these days, that that would have some impact on me personally. However, I have had no part in the formulation of this proposal and I do not really know the ins and outs of it.

Mr. WOLF. No, I understand that, and I am not going to ask you all those. I think you have kind of answered that you are troubled personally. But you said that you have 2,294 employees, average positions, is that right? Have you had a dramatic increase in retirements or concern expresed about this?

We had Mr. Egger in here the other day, and Congressman Hoyer and I have been really working on this. What I want to ask the Treasury people, I will put this in the record here, if they have been using this brochure that they are passing out, urging U.S. Savings Bonds to be purchased? It says if you cash in your bonds during this tax grace period, the tax impact is minimal. You generally have less income after retirement, and if you are over 65 you

have double exemptions. Civilian employees could also realize tax savings by redeeming bonds during the exempt period when Federal annuity payments consist of money they themselves contribute to the fund.

Congressman Hoyer and I have been trying to get the Administration and everybody else to change. Roscoe Egger said they had a significant number of retirements in the last three or four months and expect it quite heavily in the next couple. Do you have the same sense?

Mr. DOUGLAS. No, we have not had such an experience. I suspect, and that is speculation, that people, particularly in the SES, who have the ability to accrue annual leave beyond the limitation of 240 hours would be particularly affected. When they retire, particularly if they have a relatively high amount of accrued annual leave, they get a lump sum payment. Usually if they have done a little preliminary work on their tax situation, they will try to retire early in a year and then the tax is not in a high bracket.

Mr. WOLF. Then you think if the provision passes in the House Bill it will accelerate the retirement of some people?

Mr. DOUGLAS. Well, in my particular Service it has not had that impact. In fact, we do not have many people who have indicated that they would retire.

Mr. WOLF. Would that hamper your mission?

Mr. DOUGLAS. No, sir. Most of our SES's are younger than that. The only old person around here is myself.

Mr. WOLF. Would it hamper your mission if you retire?

Mr. DOUGLAS. I would hate to put that to a vote. [Laughter.]

Mr. WOLF. I just wanted you to say that you were concerned about it, and if you had not——

Mr. DOUGLAS. I have looked at it.

Mr. WOLF. Yes, because originally I had said that with every other agency we have spoken with, concern has been expressed. I understand that you are representing the Administration, and I respect that you do not want to comment on something that does not come under your jurisdiction. But I just wanted to make the point for the record that this does have a negative impact on a lot of Federal employees, and not only Federal employees, but teachers and policemen and firemen rescue squad, 19 million people. We appreciate your care for that. Thank you very much.

Mr. ROYBAL. Thank you, Mr. Wolf.

Mr. Addabbo?

FINANCIAL MANAGEMENT SERVICE INITIATIVES

Mr. ADDABBO. Mr. Douglas, in your statement, you speak of $6.5 million over the Continuing Resolution and a total increase of $17 million over Gramm-Rudman. You speak of no additional personnel.

What will that additional money be used for?

Mr. DOUGLAS. Mr. Addabbo, Mr. Page has got a detailed breakdown on that and can respond to your question.

Mr. PAGE. We have included seven initiatives in our budget. The first initiative is how our financial asset management program is aimed at expanding and enhancing our review and monitoring of Government collection programs.

We have also been assigned responsibility for the Federal credit practices function by OMB, and part of the investment is in that area as well.

We have a second initiative that is aimed at accelerated delivery systems, and there are two specific items in this area. One is the purchase of equipment that we currently lease. It is optical character recognition equipment that we use to read the optical characters on our checks. And we have a $521,000 savings in that by buying over leasing.

We also have an investment in our electronic funds transfer program included in those initiatives, as well as approximately $3.9 million in investment in our computer software for our central accounting functions.

And the final large item is approximately $1.7 million in security improvements, largely in our financial centers, site and access security over our seven Regional Financial Center sites.

Mr. ADDABBO. Thank you very much.

Thank you, Mr. Chairman.

Mr. ROYBAL. Will you please submit for the record the breakdown?

Mr. DOUGLAS. Yes, sir.

[Information follows:]

FINANCIAL MANAGEMENT SERVICE FISCAL YEAR 1987 CONGRESSIONAL BUDGET SUBMISSION
OVERVIEW

[In thousands of dollars]

	Amount	FTE
Fiscal year 1986 request	244,621	2,294
G-R-H reduction	(10,519)	0
Fiscal year 1986 revised request	234,102	2,294
Fiscal year 1987 request	251,117	2,294
Total change	17,015	0
Productivity savings—Postage ($3,154), check stock ($551), management improvements ($871 and 32 FTE's), check envelopes ($171), printing and reproduction ($200)	(4,947)	(32)
Nonrecurring costs	(12,535)	0
Maintaining current level items (inflation)	11,530	0
Restoration of G-R-H reduction—Personal services ($1,350), travel and transportation of persons ($546) Communications, utilities and other rent ($700); Other services—Reimbursement for banking services ($3,154), other ($4,570), supplies and materials ($39), equipment ($160)	10,519	0
Program increases	12,448	32
Total change	17,015	0

Note: Program increases ($12,448)—Financial Asset Management Program ($1,198 and 20 FTE's)—Benefits: $653 million in interest savings for the period FY 1987 through FY 1991; Accelerated Delivery Systems ($1,965)—Benefits: $3.2 million annual postage savings beginning in FY 1987; Security/FMFIA ($1,750)—Benefits: Ensure security of the systems which process $2.0 trillion in collections and payments annually; Financial Information Utilization ($3,910 and 12 FTE's)—Benefits: Cumulative savings of $330 million in agencies by 1991; Quality Assurance Program ($950)—Benefits: Avoid operating costs of approximately $685,000 per year beginning in FY 1988; Headquarters Consolidation—Phase II ($2,555)—Benefits: Greater organizational effectiveness and increase in staff effectiveness and increase in staff efficiencies; better information distribution; Human Resource Utilization ($120)—Benefits: Retraining and maintaining current workforce.

Mr. ROYBAL. Mr. Murphy and Mr. Douglas, I want to thank you for your testimony this afternoon.

Thank you.

[The justifications follow:]

FINANCIAL MANAGEMENT SERVICE, Salaries and Expenses

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1986
(Dollars in Thousands)

	Permanent Positions	Average Positions	Amount
FY 1986 Appropriation (Continuing Resolution) Enacted by Congress	2,230	2,294	244,621
Adjustments:			
(1) Proposed Program Supplemental	--	--	--
(2) Proposed Rescission	--	--	--
(3) Reductions Under P.L. 99-177	--	--	(10,519)
Proposed Authorized Level for 1986	2,230	2,294	234,102
Estimate FY 1987	2,230	2,294	251,117

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1987
(Dollars in Thousands)

	Appropriation		Authorized Level		Budget Estimate		Increase or Decrease (-) for FY 1987					
	FY 1985		FY 1986		FY 1987		Total Changes		Program Increases		Other Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
1. Financial Operations												
a. Field Operations	958	136,907	948	132,831	916	134,433	(32)	2,402	--	4,136	(32)	(1,734)
b. Headquarters Operations	570	20,679	502	21,141	502	23,714	--	2,573	--	1,009	--	1,564
c. General Financial Services	44	1,630	51	1,653	51	1,815	--	162	--	73	--	89
Total, Financial Operations	1,580	159,226	1,501	154,825	1,549	159,962	(32)	5,137	--	5,218	(32)	(81)
2. Federal Finance	302	12,565	306	12,216	338	15,533	32	3,317	32	2,047	--	1,270
3. Reimbursement for Banking Services	1	41,353	1	34,286	1	41,410	--	7,124	--	13	--	7,111
4. Information Systems	409	29,622	486	32,775	486	34,212	--	1,437	--	5,170	--	(3,733)
Unobligated balance available, SOY	--	(4,227)	--	--	--	--	--	--	--	--	--	--
Unobligated balance available, EOY	--	6,756	--	--	--	--	--	--	--	--	--	--
Unobligated balance lapsing	--	1/ 950	--	--	--	--	--	--	--	--	--	--
Total appropriation, authorized level and budget estimates	2,297	246,251	2,294	234,102	2,294	251,117	--	17,015	32	12,448	(32)	4,567
Permanent positions established	(2,158)		(2,230)		(2,230)		--		(32)		(-32)	

1/ Includes $873,000 withheld from obligations under Section 515 of the Treasury-Postal Appropriation Act, 1985 enacted by reference in the Continuing Resolution for FY 1985 (P.L. 98-473).

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FINANCIAL MANAGEMENT SERVICE, Salaries and Expenses

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987
(Dollars in Thousands)

Program Increases:	Activity 1			Activity 2			Activity 3			Activity 4			Total		
	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount
1. Financial Asset Management Program. . .	--	--	--	20	20	1,198	--	--	--	--	--	--	20	20	1,198
2. Accelerated Delivery Systems.	--	--	1,965	--	--	--	--	--	--	--	--	--	--	--	1,965
3. Financial Information Utilization . . .	--	--	250	12	12	460	--	--	--	--	--	3,200	12	12	3,910
4. Security/FMFIA.	--	--	1,638	--	--	47	--	--	2	--	--	63	--	--	1,750
5. Headquarter Consolidation - Phase II. .	--	--	1,290	--	--	323	--	--	10	--	--	932	--	--	2,555
6. Quality Assurance Program	--	--	--	--	--	--	--	--	--	--	--	950	--	--	950
7. Human Resource Utilization.	--	--	75	--	--	19	--	--	1	--	--	25	--	--	120
Total Program Increases	--	--	5,218	32	32	2,047	--	--	13	--	--	5,170	32	32	12,448

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FINANCIAL MANAGEMENT SERVICE, Salaries and Expenses (continued)

Other Changes:	Activity 1			Activity 2			Activity 3			Activity 4			Total		
	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount
Increases necessary to maintain current levels:															
1. Net cost of within-grade salary increases	--	--	200	--	--	108	--	--	0	--	--	133	--	--	441
2. Grade-to-Grade salary increases	--	--	102	--	--	64	--	--	0	--	--	46	--	--	212
3. Other personnel compensation	--	--	52	--	--	12	--	--	0	--	--	38	--	--	102
4. Increased cost of employee benefits	--	--	117	--	--	42	--	--	0	--	--	63	--	--	222
5. Increased cost for rental of space	--	--	2,095	--	--	362	--	--	0	--	--	223	--	--	2,680
6. Increased cost of ADP equipment leases, software leases and maintainance costs	--	--	0	--	--	0	--	--	0	--	--	1,475	--	--	1,475
7. Increased utility costs	--	--	82	--	--	6	--	--	0	--	--	13	--	--	101
8. Increased cost of communications	--	--	269	--	--	58	--	--	0	--	--	79	--	--	406
9. Increased cost of printing	--	--	166	--	--	6	--	--	0	--	--	19	--	--	191
10. Increased reimbursement to the working capital fund	--	--	9	--	--	0	--	--	0	--	--	0	--	--	9
11. Increased cost of training	--	--	13	--	--	6	--	--	0	--	--	10	--	--	29
12. Increased payroll costs	--	--	98	--	--	16	--	--	0	--	--	20	--	--	134
13. Increased cost of outside contracts	--	--	150	--	--	62	--	--	0	--	--	388	--	--	600
14. Increased cost of the TT&L program	--	--	0	--	--	0	--	--	3,956	--	--	0	--	--	3,956
15. Increased cost of check wrapping supplies	--	--	67	--	--	0	--	--	0	--	--	0	--	--	67
16. Increased cost of supplies and materials	--	--	773	--	--	5	--	--	0	--	--	92	--	--	870
17. Increased cost of furniture and equipment	--	--	34	--	--	1	--	--	0	--	--	0	--	--	35
SUBTOTAL, Maintaining Current Level Increases	--	--	4,227	--	--	748	--	--	3,956	--	--	2,599	--	--	11,530

FINANCIAL MANAGEMENT SERVICE, Salaries and Expenses

	Activity 1			Activity 2			Activity 3			Activity 4			Total		
	Pos.	Ave. Pos.	Amount	Pos.	Avg. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount
Maintaining FY 1986 program levels reduced by P.L. 99-177:	--	--	3,161	--	--	661	--	--	3,157	--	--	3,540	--	--	10,519
Reductions, nonrecurring costs, and savings:															
1. Nonrecurring one-time expenses....	--	--	(1,483)	--	--	(134)	--	--	(1)	--	--	(4,379)	--	--	(5,997)
2. Nonrecurring cost of equipment....	--	--	(1,039)	--	--	(5)	--	--	(1)	--	--	(5,493)	--	--	(6,538)
3. Productivity savings.....	(32)	(32)	(4,947)	--	--	--	--	--	--	--	--	--	(32)	(32)	(4,947)
Subtotal, Reductions, non-recurring costs and savings...	(32)	(32)	(7,469)	--	--	(139)	--	--	(2)	--	--	(9,872)	(32)	(32)	(17,482)
Total, Other Changes.....	(32)	(32)	(81)	--	--	1,278	--	--	7,111	--	--	(3,733)	(32)	(32)	4,567
Total Increases or Decreases 1987 compared with Proposed Authorized Level....	(32)	(32)	5,137	32	32	3,317	--	--	7,134	--	--	1,437	--	--	17,013

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Financial Management Service

Impact of
FY 1986 Gramm-Rudman-Hollings Budget Reduction

o Description of Impact on Service Programs:

The G-R-H budget reduction (P.L. 99-177) for 1986 will affect budget activities as shown below:

- Financial Operations.....$3,161,000
- Federal Finance..... 661,000
- Reimbursement for Banking Services..... 3,157,000
- Information Systems..... 3,540,000

o Effect on Workload:

- Staffing reduction of 50 positions may delay the processing of Governmentwide claims and accounting transactions;

- Postponement of the Claims Application Redesign Project will delay development of compatible, standardized, and fully integrated software in the Regional Financial Centers;

- Termination of the Capacity Planning Analysis for the headquarter computers will delay redesign of applications and projection of future growth in system needs.

o Effect on Services:

- Reductions in reimbursements to the Federal Reserve Banks may affect the Service's relationship with the Banks and, therefore, the quality of FRB services.

- Development of vital data needed by Treasury, OMB, and CBO for financial decision-making will be delayed. This includes automated support for lead agency programs in cash and credit management, as well as Governmentwide financial systems and analysis methods.

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- Effect on Ability to Fulfill Bureau Mission:
  - Delay in efforts to improve on the collection, delivery and reporting tied to Governmentwide programs;
  - Reduce resources devoted to compliance with OMB Circulars A-123 on Internal Control Reviews, A-71 on Computer Risk Analysis, and the Federal Managers' Financial Integrity Act.

SUMMARY JUSTIFICATION OF FY 1987 BUDGET ESTIMATES

General Statement

The Financial Management Service (FMS) fulfills a major role as the Government's central financial manager through the vital central financial and accounting services it provides to the public, other Federal agencies and financial institutions. It disburses over 700 million Government payments annually, oversees a daily cash flow of over $7 billion, and accounts for and reports on these activities. Service responsibilities include: regulation and operation of the Government's collection systems; implementation of sound cash and credit management practices in the processing of Federal funds; central payment services for all civilian executive agencies except the U.S. Postal Service, U.S. Marshals, and certain Government corporations; processing claims on lost, stolen, and forged checks; providing central accounting services for the Government; compiling and publishing financial reports, and maintaining and managing myriad trust, revolving and deposit fund accounts.

In order to continue to move in a strategic direction that supports and enhances operations, and provides the highest level of service attainable, FMS must continue to increase its use of automated and electronic systems while reducing the time and costs associated with operating in a paper-based environment.

In FY 1987, the Financial Management Service is requesting $251,117,000 and 2,294 average positions. In the last few years, the Service has undertaken many modernization efforts aimed at increasing the Service's use of automated and electronic systems to improve the Government's financial systems. The FY 1987 budget includes funds to continue these modernization efforts as well as undertake several additional initiatives. Of the amount requested, $9.9 million are necessary for the continuation of our modernization efforts and to support our business lines as follows: financial management policy ($1.7 million); financial operations ($4.4 million); financial information ($3.4 million), and resource management ($.4 million). The remaining $2.5 million will support the Service's headquarters consolidation efforts. In addition funds required to maintain the current level of services, the inflation related increases, represent an additional $11.5 million.

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1. Financial Operations

a. Field Operations. This activity is responsible for prescribing Federal Government payment policy; issuing timely payments for Federal civilian agencies through checks and electronic funds transfers (EFT); issuing bonds; processing EFT claims; performing the initial work on check claims; and providing full field representation for other functional areas of the Service.

Funding is requested to purchase optical character recognition equipment to read and process paper checks, payment vouchers and non-tape issues. This equipment which is currently being leased, should be purchased as the result of a cost-benefit analysis which determined that it would be beneficial to do so. In addition, resources are proposed to continue to promote Direct Deposit/Electronic Funds Transfers by fostering greater agency commitment and by simplifying the enrollment process for the recipient. Lastly, funding is requested to continue the upgrade of security systems in the Regional Financial Centers by installing access control systems; expanding the guard forces; and installing port protection devices.

In FY 1987, the number of payments and bonds issued will reach an estimated volume of 726,355,000 (appropriated and reimbursed), an increase of 830,000 items from the level projected for FY 1986. This increase incorporates a 4% reduction in checks issued and an 8% increase in EFT payments.

b. Headquarters Operations. This activity maintains the control and financial integrity of the Federal payments and collections processes, which include conducting reconciliation, accounting and claims activities. It adjudicates and settles claims against the United States resulting from instances in which Government checks have been forged, lost, stolen, destroyed or mutilated, and collects monies from those parties having liability to the United States resulting from the improper negotiation of Government checks. Through the reconciliation processes, $30 million in check payment overcharges are recovered annually on behalf of the Government and millions of dollars of improperly classified collections are identified and properly credited.

Funding is requested to develop an automated system for the evaluation of agency deposits which will replace the current manual process. The timeliness with which the automated system will identify discrepancies and assist in properly crediting deposits will reduce the need for Federal Government borrowing. The new system will adjust, track, control and monitor Federal agency deposit activity. Information will be provided which will guide and assist other agencies, banks and the Treasury in eliminating specific internal controls for accounting procedures.

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c. General Financial Services. This activity provides financial services for numerous trust and miscellaneous accounts, including the two Social Security Trust Funds, the two Medicare Trust Funds, the Unemployment Trust Fund, D.C. Government Loan accounts, Synthetic Fuel Development Account, and the Airport and Airway Trust Fund. In addition, this activity provides for payment of domestic and international claims.

2. Federal Finance

Federal Finance is responsible for working with Federal program agencies to establish and manage efficient, cost effective cash and credit management programs and to ensure the integrity of the Government's financial accounting, reporting, and financial services to the Government at large; to its agents who participate in the payments and collections processes; and to private sector users of Government financial information. In its lead agency role for the Service, Federal Finance develops, disseminates, and implements operating policies, regulations, and standards affecting all aspects of the Government's cash and credit management programs and its accounting, reporting, and financial management systems.

Cash and credit management and funds control functions result in substantial savings to the Government by reducing the cost of depositary services; minimizing the levels of cash held outside the Treasury; enhancing the daily utilization of funds, including the proper timing of disbursements; and accelerating the flow of receipts into the Treasury.

The requested resources will enable the Service to carry out its lead agency responsibilities in FY 1987 through efforts designed to:

- Improve and safeguard the flow of Federal funds through the development and implementation of modern cash management techniques.
- Speed the collection of Federal funds through enhancements to the collections systems.
- Improve the management of Government assets and liabilities through the development of detailed standards, guidelines, and policies designed to enable agencies to more effectively allocate credit, service loans, and handle debt collection.
- Institutionalize financial analysis capabilities within the Federal Government by converting financial guidelines and standardized reports from paper to an on-line data base.

This budget does not include compensation to banks from the use of Government balances for facilitating the collection and control of approximately $212 billion of Government receipts. The dollar value of compensating balances to support the Treasury General Accounts and Lockbox network is $15.5 million. Net interest savings acquired to the Government as a result of these systems is $297.8 million. (FY 1985 actual amounts).

3. Reimbursement for Banking Services

This activity provides for reimbursements to the Federal Reserve Banks for maintenance of Treasury Tax and Loan accounts, Treasury General Account processing, Automated Clearing House services and an account established for processing U.S./Iranian Claims. Fee payments are made to commercial depositaries for Federal Tax Deposits processed under the Treasury Tax and Loan Investment program, and Treasury, in turn, earns interest on funds held on deposit.

4. Information Systems

Information Systems has the responsibility for overseeing the development, implementation, improvement, and operation of information and financial management systems which support and promote sound money management in the Federal Government. In addition, Information Systems offers assistance, as needed, to projects requiring systems development. Consistent movement in this direction requires constantly assessing current systems, identifying future requirements, and formulating initiatives to improve data processing and telecommunications operations. As part of this process, Information Systems supports a large number of developmental efforts which will enhance the collections, payments, accounting, reporting, and resources management functions. A major thrust of these developmental efforts is to ensure that the Service's systems are integrated to the maximum extent to eliminate inefficiency and redundancy.

Information Systems provides data processing and telecommunications services to support the Service's headquarters operations. Information Systems is also responsible for data processing operations and the associated computer support services necessary to process the Service's internal administrative and Governmentwide systems, such as the Check Payment and Reconciliation System and the Central Accounting System. Specific functions include operating and maintaining all central facility computer systems and scheduling and processing the development and production workloads, installing and tuning operating system software, planning and coordinating hardware installations, and acquiring ADP and telecommunications equipment, software, services and supplies.

FY 1987 resources will enable the Service to develop and implement improved central financial management reporting capabilities and establish a data base to provide more timely and accurate reporting on financial management activities. We will also implement and improve current automated processes directly related to the payment, collection, accounting and reporting functions and indirectly related to the cash management functions of the Service. Without these planned enhancements, the vital payment and collection programs of the Service will be in jeopardy. Lastly, FY 1987 funds will assure the quality, effectiveness and efficiency of the Service's information systems and reduce life cycle systems costs through enhancements to the Quality Assurance Program.

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DEPARTMENT OF THE TREASURY

FINANCIAL MANAGEMENT SERVICE

Federal Funds

General and special funds:

SALARIES AND EXPENSES

For necessary expenses of the Financial Management Service, [$244,621,000] $251,117,000, of which not to exceed [$1,800,000] $2,137,000 shall remain available until expended for systems modernization initiatives. (Reorganization Plan No. III of 1940; Executive Order No. 6166; 12 U.S.C. 121, 122, 413, 416, 417, 420, 31 U.S.C. 144, 146-148, 157, 545, 548, 561, 686, 1023 (b).)

Note - A regular 1986 appropriation for this account had not been enacted at the time this budget was prepared. A continuing resolution (P.L. 99-190) provides funds to the extent and in the manner provided for in the conference version of H.R. 3036, Treasury, Postal Service and General Government Appropriations Act, 1986 as amended in P.L. 99-190.

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Financial Management Service, Salaries and Expenses

SELECTED WORKLOAD DATA
(In Thousands)

Activity and Principal Workload Factors	FY 1985 Actual	FY 1986 Program in FY 1986 Budget	FY 1987 Budget	FY 1987 Estimate	Percent of Change From FY 1986
1. Financial Operations:					
A. Payments Workload:					
Financed by Appropriation:					
(1) Veterans Administration:					
a. National Service Life Insurance...	2,325	1,740	2,232	2,120	
b. Regular.....	55,889	56,260	53,568	50,880	
Total Veterans Administration...	58,214	58,000	55,800	53,000	-5.02%
(2) Social Security:					
(a) Benefits.....	434,627	436,670	435,000	438,000	
(b) Supplemental Security Income.....	49,735	41,200	46,000	45,300	
Total Social Security.....	484,362	477,870	481,000	483,300	0.48%
(3) Tax Refunds.....	80,738	80,000	83,500	85,500	
(4) Other Regular Agencies.....	84,382	97,350	86,025	85,255	
(5) Subtotal Payments.....	707,696	713,220	706,325	707,055	
(6) Savings Bonds.....	3,541	3,000	3,000	3,000	
Total Workload Financed by Appropriation.....	711,237	716,220	709,325	710,055	0.10%
Financed by Reimbursement:					
(1) Railroad Retirement.....	13,144	13,400	14,500	14,600	
(2) Savings Bonds.....	1,199	1,700	1,700	1,700	
Total Workload Financed by Reimbursement.....	14,343	15,100	16,200	16,300	0.62%
Total Workload.....	725,580	731,320	725,525	726,355	0.11%
B. Check Claims Settlement Workload:					
Financed by Appropriation.....	1,057	1,007	1,030	1,030	
Financed by Reimbursement.....	11	10	10	10	
Headquarters Operations Total Workload.	1,068	1,017	1,040	1,040	0.00%
2. Information Systems:					
Checks Paid and Reconciled Workload:					
Financed by Appropriation.....	579,010	564,185	579,405	565,595	
Financed by Reimbursement.....	8,300	8,716	12,100	12,000	
Checks Paid and Reconciled Total Workload..	587,310	572,901	591,505	577,595	-2.35%

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FINANCIAL MANAGEMENT SERVICE, Salaries and Expenses

SUMMARY OF EMPLOYMENT
(Number of Average Positions)

Principal Categories	Actual 1985	Estimated 1986	Estimated 1987	Increases for 1987 Total	Increases for 1987 Program Increases	Increases for 1987 Other
Managerial and Administrative Direction	48	48	48	--	--	0
Accounting and Budgeting	455	455	455	--	5	(5)
Accounting Technicians	191	191	176	(15)	--	(15)
ADP Personnel	356	359	364	5	5	0
Management Analysts and Technicians	54	54	67	13	13	0
Financial Program Analysts	134	134	134	--	5	(5)
Claims Examiners	161	161	161	--	--	0
Personnel Management	49	49	49	--	--	0
General Administrative and Office Services	326	326	326	--	--	0
Typists (including check typists), Stenographers, and Secretaries	218	222	222	--	4	(4)
Other Machine Operators	96	96	96	--	--	0
Laborers	38	38	38	--	--	0
Miscellaneous Occupations	65	68	65	(3)	--	(3)
Subtotal	2,191	2,201	2,201	--	32	(32)
Part-time and temporary average positions	106	93	93	--	--	--
Total Average Positions	2,297	2,294	2,294	--	32	(32)

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EXPLANATION OF FISCAL YEAR 1986 BUDGET PROPOSED AUTHORIZED LEVEL AND ADJUSTMENTS

The Financial Management Service proposes to adjust FY 1986 programs submitted to the Congress in the FY 1986 budget as follows:

Redirect $6,016,000, of the $14,126,000 approved for improvement projects. This will not impact certain high priority projects such as the Government On-Line Accounting System, Paper Check Conversion, Headquarters Consolidation, and the Computer upgrade/Check Payment and Reconciliation (CP&R) projects. The redirected funds must be reallocated to meet critical needs and shortfalls, including:

1. An increase of $2,368,000 for check stock and supply inventories related to the paper check conversion and concurrent phasing out of the card check.

2. An increase of $1,729,000 for computer support for the CP&R System Redesign for cost increases involved in developing the system offsite at the Department of Justice; completing the installation of the computer system; and purchasing required peripheral equipment and software.

3. An increase of $1,531,000 to complete the move of 900 headquarters employees to the Prince Georges Plaza site.

4. An increase of $388,000 for salaries and benefits to restore a portion of the 5% salary cut which Congress reversed but for which no funds were restored.

In addition, the Service is preparing to reallocate $2,336,000 that was associated with reimbursing the Federal Reserve Banks. The Service plans to redirect $1,893,000 of these monies to fund the 5% salary cut which Congress reversed but for which no funds were restored and the remaining funds to perform a requirement analysis and systems design of our Regional Financial Centers computer systems.

These adjustments do not include reductions pursuant to P.L. 99-177 as discussed elsewhere in this submission.

EXPLANATION OF FISCAL YEAR 1987 BUDGET INCREASES AND DECREASES

Funding requirements for the Financial Management Service in FY 1987 are estimated to be $251,117,000. Gross increases of $34,497,000 offset by $17,482,000 in non-recurring expenses, productivity savings and program reductions result in a net increase of $17,015,000 over the Gramm-Rudman-Hollings funding level of $234,102,000 for FY 1986.

PROGRAM CHANGES

Total Requested Program Changes.....$12,448,000 32 Avg. Pos.

The program changes requested for FY 1987 will improve the quality of services provided to the Federal Government and the American public. These initiatives promote enhancements to operating systems which affect payments, collections, accounting and reporting functions, as well as improving Governmentwide cash and credit management. They also provide for renovations and the move of Headquarters personnel to the Liberty Loan Building.

The increases are broken down into the following object classes:

Personal Services	$1,149,000
Travel and Transportation of Persons	158,000
Postage	50,000
Communications, Utilities and Other Rent	511,000
Printing and Reproduction	413,000
Other Services	7,382,000
Supplies and Materials	129,000
Equipment	2,656,000

1. **Financial Asset Management Program.....$1,198,000 20 Avg. Pos.**

This initiative covers a spectrum of improvement activities involved in (1) collecting and safeguarding Government funds; (2) applying the latest cash management techniques to the movement of funds in order to maximize availability and minimize the Government's borrowing costs; (3) improving the administration of credit programs throughout the Government by consistent application of the most current business practices and technology; and (4) ensuring that agencies are aware of and adopt appropriate techniques and procedures in all areas of financial asset management.

Specific achievements related to the program will address enhancing Government collections programs through intensive consulting efforts to improve the collection and deposit systems for all agencies; improving management of Government collections; setting policy on the collection of funds; and ensuring that agencies adhere to standards established pursuant to the Deficit Reduction Act of 1984. Efforts will be made to ensure that Treasury funds are placed with financially sound institutions; that international collection and disbursement systems are networked in ways that eliminate costly banking arrangements; and that Federal agencies receive the support necessary to improve their credit and loan programs. Quantifiable savings for the period FY 1987 - FY 1991 are projected at $653 million. This is a benefit cost ratio of 75:1 for the same period.

Personal Services	$692,000
Travel and Transportation of Persons	45,000
Communications, Utilities and Other Rent	82,000
Printing and Reproduction	10,000
Other Services	318,000
Supplies and Materials	28,000
Equipment	23,000

2. Accelerated Delivery Systems.....$1,965,000

This project will enable the Service to continue to perform its critical responsibility of processing payments in a timely manner. The Service, through its Field Operations activity, is responsible for processing payments for Federal civilian agencies through the issuance of checks, bonds, letters of credit and electronic funds transfers. With the implementation of the paper check effort, it is necessary to utilize new optical character recognition systems to read and process paper checks, payments vouchers and non-tape issues. Resources are requested to purchase the OCR equipment which we currently lease. A benefit/cost analysis proved this to be the most cost effective way to process information. It should be noted that in the past, information from reading and processing checks was available through the punched holes in card checks. With the phasing out of punched card checks, an alternative means of processing returned checks had to be identified.

The Service is also committed to encouraging the increased use of Direct Deposit/Electronic Funds Transfers since it is a more reliable and a less expensive means of making recurring benefit payments. Approximately 20 million recipient payments are currently issued monthly by EFT, representing 40% of all eligible payments Governmentwide. Over 200,000 additional people become eligible for Direct Deposit each month -- creating an ever increasing market base. However, to increase participation in Direct Deposit, the Service must foster greater agency commitment by encouraging program agencies to take the lead in developing, funding and implementing recipient marketing and systems enhancements. In addition, it would be beneficial to simplify the enrollment process for the recipient -- currently an awkward, paper-based and time consuming method.

Personal Services	$ 75,000
Travel and Transportation of Persons	30,000
Postage	50,000
Communications, Utilities and Other Rent	50,000
Printing and Reproduction	400,000
Other Services	588,000
Supplies and Materials	40,000
Equipment	732,000

3. Financial Information Utilization.....$3,910,000 12 Avg. Pos.

The Finanical Information Utilization project will support, monitor and implement improved central financial management reporting and analysis capabilities and establish a data base to provide more timely and accurate reporting on financial management activities. The current operation is performed on five separate subsystems. The data base will standardize data elements used in each subsystem, eliminate duplication, centralize and standardize the information flowing into the five subsystems and perform all edit functions.

This data base will provide an appropriate basis for the Government's oversight and monitoring of agency programs, activities, and performance, resulting in the improved accuracy and consistency of financial information. It will also more easily maintain security and integrity of financial data, improve internal audit capabilities of deposits and reduce the loss of interest due to early payment of Government obligations.

This effort provides the means necessary to establish sound financial management policies which assure the integrity of Federal financial reports and allows proper evaluation of agencies' and Federal Reserve Banks' compliance with fiscal regulations governing accounting and reporting practices. It ensures the development and implementation of standardized methods of reporting aggregate Governmentwide financial management information. It will establish financial analysis capabilities to identify undesirable trends such as the current high rate of growth of the asset categories and assist agencies to ensure that financial information reporting requirements are implemented consistently throughout the Federal Government.

Other aspects of the project include establishing a financial analysis program to identify and monitor changes necessary in Federal agency asset management programs, and implementing system standards and other state-of-the-art techniques to strengthen systems performance and reliability. This data gathering will enable greater analysis to determine areas needing better asset liability management. This effort could yield a $330 million savings in agencies by FY 1991. The financial analyses capabilities provided by this effort will give agencies the ability to scrutinize the use of their resources and identify undesirable trends like the high growth rate in asset categories such as inventory, property and deferrals.

Personal Services	$ 382,000
Travel and Transportation of Persons	63,000
Communications, Utilities and Other Rent	9,000
Printing and Reproduction	3,000
Other Services	2,896,000
Supplies and Materials	11,000
Equipment	546,000

4. **Security/FMFIA**.....$1,750,000

The Service is currently undergoing tremendous change as it moves toward state-of-the-art technology to carry out its mission. As new systems replace old ways of doing business, there are new vulnerabilities for fraud, waste and abuse in such systems that make payments to millions of beneficiaries and process $2 trillion in collections and payments annually. In a recent Government Accounting Office report to Congress, it was stated that billions of dollars are vulnerable due to weaknesses and breakdowns in agency systems of internal control. Security measures must be developed and refined to meet the Service's internal controls and changing requirements.

In an effort to continue a Servicewide program that will more effectively comply with existing directives and security requirements issued by the Treasury, Office of Management and Budget, National Security Agency, National Bureau of Standards and the Congress, the Service plans to: (1) continue implementing a framework for the security function involving policy direction, technical assistance and third party evaluation and oversight; (2) continue to provide the necessary support to assure compliance with the Federal Managers' Financial Integrity Act of 1982; (3) create an awareness of the importance of security in conducting the business of the Service; and (4) develop the appropriate measures to deal with breaches of security in a timely and cost effective manner.

In addition, this program will continue with efforts begun in FY 1986 to upgrade the physical security at the Regional Financial Centers (RFCs) in order to bring security up to the level outlined in the Office of Management and Budget Circular A-71, Transmittal No. 1 (Security of Federal Automated Information Systems), the Privacy Act of 1974, the Office of Management and Budget Circular A-123 (Internal Systems), and the Federal Managers' Financial Integrity Act of 1982. Recent inspections and audits by the Treasury Department Inspector General's staff have pointed out areas where Financial Centers do not meet these security requirements. Projects for FY 1987 include installation of access control systems for all seven RFCs which will allow RFC management to restrict access to their buildings as well as sensitive areas within. This project also calls for contracting out for a guard force and the purchase of port protection devices to prevent unauthorized access to RFC computers.

Other Services	$1,185,000
Equipment	565,000

5. Headquarters Consolidation - Phase II.....$2,555,000

The Financial Management Service was directed by the Congress to relocate some of its Washington staff to the Prince Georges Center in Hyattsville, Maryland. Preliminary negotiations held with the General Services Administration (GSA) in FY 1985 resulted in a relocation plan whereby, in addition to occupying approximately 187,000 square feet at the Prince Georges Center (Phase I), the Service will consolidate employees in an undetermined downtown location of approximately 100,000 square feet (Phase II). Further negotiations with GSA resulted in the selection of the Liberty Loan Building (LLB) as the Service's downtown location. (The Washington Financial Center and the Accounting Group will continue to be located in the General Accounting Office Building).

The Service is in the process of relocating to the Prince Georges Center and will complete the move in the second quarter of FY 1986. In order to successfully accomplish the consolidation effort into the LLB, the Service will be incurring moving expenses and additional costs above the very basic renovation costs to be paid by GSA. Due to the fact that LLB is an extremely old building, many of the upgraded renovations are a direct result of the obsolescent design of the building. Raised floors, air conditioning, emergency power supply, smoke detectors, electrical wiring and sprinkler systems are just a few examples of the upgrades needed to functionally accommodate the Service's technological equipment. In addition to these relocation expenses and renovations, the Treasury Financial Communications System Control Center site must be relocated out of the Treasury Annex into the Prince Georges Center. Preparation at the new site, as well as the physical move of hardware must be completed without disruption of service.

To expand the benefits associated with the Service's office automation equipment, a Local Area Network will be installed at the Liberty Loan Building Headquarters location. This system will allow information distribution so that each user device on the network will be able to communicate with every other user device. This enhancement will also aid in perfecting document processing, microcomputing and efficiency streamlining in related management information support.

Communications, Utilities and Other Rent	$ 370,000
Other Services	1,395,000
Equipment	790,000

6. Quality Assurance.....$950,000

The Service's information systems, which account for all of its financial information and money movement, must be developed and maintained to assure financial integrity. If the Service's information systems are not sound, financial integrity of the Federal Government is jeopardized. Many factors and disciplines play a role in assuring systems integrity, but perhaps the most crucial of these is a sound Quality Assurance (QA) program. The purpose of QA is to ensure that ADP related systems are designed, implemented and maintained so that acceptable levels of accuracy, reliability and quality are "built in" to the systems rather than "added on". Specific areas of savings that will be derived from a sound Quality Assurance program are the result of standards being developed, implemented and adhered to and standardized software being developed, certified and documented.

The Service has adopted a Systems Development Methodology which requires that Quality Assurance be involved in all life cycle phases of systems development. It is projected that operational efficiencies resulting from a sound QA procedure could yield a budgetary savings of approximately $685,000 a year, or more, beginning in FY 1988. Significant benefits resulting from quality assurance are a more effective systems development process resulting in more efficient systems design with less "debugging" during testing and implementation phases and, therefore, lower costs. In addition, an effective Quality Assurance program will provide well documented and tested systems which will help the Service avoid future operating problems. The upgraded programs will place the Service in a favorable systems integrity position.

Other Services.....$900,000
Supplies and Material..... 50,000

7. Human Resource Utilization.....$120,000

One of the goals of the Service is to "ensure that people have the tools and skills to do their jobs." Traditional training programs are proving to be insufficient in providing employees with the needed skills to do their jobs in an environment where the work methodology is changing dramatically. Traditional training programs are geared toward the individual as a single working unit. The new training methodology looks at the organization as a whole and gears training programs toward improving not just the individual, but also improving the individual within the organizational base. In addition, training programs are looking toward the needs of future technological and mission changes. The intention of the Retraining Program is to provide employees with the needed skills to do their jobs effectively and efficiently in today's ever changing work environment.

The Service is requesting funds to support in part a broad effort to identify employees capable of being retrained for new jobs within the Service and to retrain and place them. Efficient utilization of human resources will impact the Service's ability to manage technological change. Savings will be realized through increased productivity as a result of better trained employees at all levels and employees will maintain a high morale and commitment to the Service. This project will reflect the same level of effort as FY 1986.

Travel and Transportation of Persons	$ 20,000
Other Services	100,000

OTHER CHANGES

Total Other Changes.....$4,567,000 and -32 average positions

Increases necessary to maintain current authorized levels.....$11,530,000

1. Net cost of within-grade increases.....$441,000

   This amount reflects a .8% increase over FY 1986 for within-grade increases.

2. Grade-to-Grade salary increases.....$212,000

   This amount represents the actual cost of promoting career-ladder trainees to journeymen level positions.

3. Other personnel compensation.....$102,000

   This increase provides for the Performance Management Recognition System (PMRS) as mandated March 25, 1985, in the Code of Federal Regulations, Part 540 and effective October 1, 1984.

4. Increased cost of employee benefits.....$222,000

   This amount provides for the 7.15% increase in Social Security Taxes and Medicare Health Insurance tax for new hires and OPM's estimated 10% increase in health benefits for current employees.

5. Increased cost for rental of space.....$2,680,000

   This amount is based on the latest GSA projection for buildings which will be occupied by FMS in FY 1987.

6. Increased cost of ADP equipment leases, software leases and maintenance costs..$1,475,000

   This amount is based on full year costs for specific projects (the redesigned Check Payment and Reconciliation System, GOALS) for lease and maintenance of ADP hardware and software.

7. **Increased utility costs**.....$101,000

This amount represents a 4.2% increase over the FY 1986 level.

8. **Increased cost of communications**.....$406,000

This amount provides for increased charges for communication services under the new Treasury digital telephone system netted against requirements for Centrex costs.

9. **Increased cost of printing**.....$191,000

This amount represents the increase in printing of Treasury publications based on Government Printing Office estimates.

10. **Increased reimbursement to the working capital fund**.....$9,000

This amount provides for the increased cost of the Service's contribution to Treasury's Working Capital Fund for printing charges.

11. **Increased cost of training**.....$29,000

This amount represents a 4.2% increase over the FY 1986 level.

12. **Increased payroll costs**..... $134,000

This increase reflects Treasury's projection of $123.91 per account for processing the Service's payroll.

13. **Increased cost of outside contracts**.....$600,000

The additional amount is required to continue contractor support for the Service's programs (GOALS, Headquarters Computer Upgrade, Financial Center Security Upgrade).

14. **Increased cost of the Treasury Tax and Loan Program**..... $3,956,000

This increase reflects the cost of fee payments to commercial depositaries to process the volume of Federal Tax Deposits estimated for FY 1987.

15. **Increased cost of check wrapping supplies**.....$67,000

This increase is based on a of 4.2% increase over the FY 1986 level.

16. **Increased cost of supplies and materials**.....$870,000

This amount will fund increased usage of microfiche paper, a 7% cost increase for the Service's new paper check, the full year cost for the new paper check print system ribbons and increases in the cost of other ADP supplies.

17. **Increased cost of furniture and equipment**.....$35,000

This amount represents a 4.2% increase over the FY 1986 level.

Maintaining FY 1986 program levels reduced by P.L. 99-177.....$10,519,000

FY 1987 program levels will be maintained by the restoration of funds that were reduced by enactment of P.L. 99-177 (the Gramm-Rudman-Hollings Act). The following object classes are affected:

Personal Services	$1,350,000
Travel and Transportation of Persons	546,000
Communications, Utilities and Other Rent	700,000
Other Services:	
Reimbursement for Banking Services	3,154,000
Other	4,570,000
Supplies and Materials	30,000
Equipment	160,000

Reductions, nonrecurring costs and savings.....-$17,482,000 - 32 Avg. Pos.

1. Nonrecurring one-time expense.....-$5,997,000

Nonrecurring one-time expenses consist of ADP contracts for analysis associated with the Government On-Line Accounting Link System (GOALS), the Financial Center Computer project and the Headquarters Computer Upgrade projects; administrative contracts for Human Resources Utilization; and consulting contracts for the Servicewide Security project. Other one-time expenses include alteration of space funds for the Security Upgrade Program at the Regional Financial Centers (RFCs); funds for travel, printing, supplies and materials, and other miscellaneous items in support of these modernization efforts; and funds for Paper Check stock due to the purchase of an inventory supply in FY 1986.

2. Nonrecurring cost of equipment.....-6,538,000

These savings consist of ADP equipment related to various management improvements and modernization efforts including the Headquarters Computer Upgrade (terminals, peripherals and a mass storage device) and the projects associated with the Service's efforts as the lead agency for cash management. Other one-time equipment and furniture savings include equipment associated with the Security Upgrade Program at the RFCs; and software for the Headquarters Computer Upgrade project.

3. **Productivity savings and program reductions.....-$4,947,000 - 32 Avg. Pos.**

Productivity savings and program reductions include a savings of $871,000 and 32 FTEs at the Regional Financial Centers (RFCs) due to the implementation of various management improvements and modernization efforts in the field and the need to administer the disbursing function more effectively. Included in the latter is the transfer to the State Department the disbursing operations for the Western Hemisphere posts which resulted in a decrease of 16 FTEs in the RFCs. Other savings include $3,154,000 in postage savings and $171,000 in savings from a decrease in the volume of check envelopes, due to a reduction in the number of checks mailed; $551,000 due to a decrease in card check stock as a result of the full implementation of the Paper Check Conversion project; and $200,000 in printing and reproduction.

DEPARTMENT OF THE TREASURY
FINANCIAL MANAGEMENT SERVICE
Salaries and Expenses
Standard Classification Schedule
(Direct Obligations Only)

	Appropriation 1985	Authorized Level 1986	Appropriation 1987	1987 Increases over 1986
Total number of permanent positions	2,158	2,230	2,230	--
Average paid employment	2,297	2,294	2,294	--
		(Dollars in Thousands)		
Object classification				
Personnel compensation:				
Permanent positions	54,685	54,954	56,804	1,850
Positions other than permanent	1,091	796	802	6
Other personnel compensation	1,897	1,713	1,890	177
Total personnel compensation	57,673	57,463	59,496	2,033
Personnel benefits	7,052	7,490	8,062	572
Travel and transportation of persons	567	697	1,222	525
Transportation of things	401	645	495	(150)
Communications, utilities and other rent:				
Postage	86,435	84,933	81,829	(3,104)
Rental of space	8,243	8,632	11,312	2,680
Other	5,877	8,693	10,231	1,538
Printing and reproduction	2,001	2,480	2,730	250
Other services:				
Reimbursement for Banking Services	41,353	34,226	41,336	7,110
Other	18,331	13,155	21,555	8,400
Supplies and materials:				
Purchase of blank checks	4,501	4,013	3,211	(802)
Other	3,557	5,449	6,079	630
Equipment	6,773	12,982	3,559	(9,423)
Claims	--	--	--	--
Total Obligations	242,764	240,858	251,117	10,259
Unobligated balance available, start of year	(4,227)	(6,756)	--	6,756
Unobligated balance available end of year	6,756	--	--	--
Unobligated balance lapsing	958 _1/	--	--	--
Total Appropriation, Authorized Level, and Budget Estimate	246,251	234,102	251,117	17,015

_1/ Includes $873,000 withheld from obligation under Section 315 of the Treasury-Postal Appropriations Act, 1985 enacted by reference in the Continuing Resolution for FY 1985 (P.L. 98-473).

FMS-15

2/4/86

PAYMENTS ISSUED

EMPLOYEE PRODUCTIVITY, FISCAL YEARS 1965 TO 1987, INCLUSIVE
(Includes Items for which Reimbursement is Received)

Fiscal Year	Workload	5 Year Average	
		Average production per employee (thousands)	Percent of Change
1965	370,459,860	234	13.6%
1966	404,915,486	272	16.2%
1967	422,360,504	309	13.6%
1968	440,365,094	339	9.7%
1969	455,782,496	366	8.0%
1970	497,854,599	394	7.7%
1971	519,396,634	414	5.1%
1972	515,357,030	430	3.9%
1973	538,323,196	452	5.1%
1974	586,735,065	478	5.8%
1975	727,021,672	518	8.4%
1976	666,329,949	541	4.4%
1977	675,307,319	565	4.4%
1978	687,455,206	581	2.8%
1979	690,721,795	591	1.7%
1980	711,237,823	585	-1.0%
1981	707,104,415	598	2.2%
1982	711,177,674	611	2.2%
1983	711,926,559	629	2.9%
1984	717,776,479	639	1.6%
1985	725,580,046	667	4.2%
1986 Estimate	725,525,000	688	3.0%
1987 Estimate	726,355,000	714	3.6%

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Payment and Reconciliation of Checks
Comparative Statement of Check Volume
Fiscal Years 1982 - 1987
(In thousands of checks)

	Actual 1982	Actual 1983	Actual 1984	Actual 1985	Revised Estimate 1986	Estimate 1987
Dept. of the Air Force.....	14,433	13,877	12,910	12,639	12,300	12,100
Dept. of the Army.....	35,663	35,315	33,842	32,435	33,330	32,293
Dept. of the Navy.....	35,280	35,328	33,501	33,246	32,212	31,004
Postal Service.....	22,517	21,948	20,180	21,684	21,027	21,246
Dept. of the Treasury.....	532,099	509,727	500,092	402,548	406,636	474,952
Misc. Agencies.....	6,084	5,912	5,507	4,758	6,000	6,000
GRAND TOTAL CHECKS PAID	646,076	622,107	606,032	587,310	591,505	577,595
Less Railroad Retirement (Reimbursable).....	(10,945)	(12,446)	(9,023)	(8,300)	(12,100)	(12,000)
Total paid at appropriated fund expense.....	635,131	609,661	597,009	579,010	579,405	565,595

DETAIL OF PERMANENT POSITIONS

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Senior Executive Service	13	13	13
Subtotal	13	13	13
GS/GM-15	33	33	33
GS/GM-14	89	89	90
GS/GM-13	196	196	200
GS-12	160	165	172
GS-11	105	106	110
GS-10	14	14	14
GS-9	120	122	127
GS-8	110	110	110
GS-7	269	286	291
GS-6	162	199	183
GS-5	256	254	256
GS-4	309	318	310
GS-3	205	208	204
GS-2	38	38	38
GS-1	2	2	2
Subtotal	2,068	2,140	2,140
Ungraded	77	77	77
Total permanent positions	2,158	2,230	2,230
Unfilled positions, end of year	(30)	0	0
Total permanent employment, end of year	2,128	2,230	2,230

Financial Management Service
Salaries and Expenses

AVERAGE GRADES AND SALARIES

	Appropriation FY 1985	Authorized FY 1986	Estimated FY 1987
Average ES salary	$67,319	$67,319	$67,319
Average GS grade	7.50	7.46	7.55
Average GS salary	$21,189	$21,058	$21,264
Average salary of ungraded positions	$23,315	$23,315	$23,315

Financial Management Service,
Salaries and Expenses

Consulting and Related Services

Consulting Services

Consulting services are obtained to assist the Service in many of the major improvement projects being developed. These services have included conducting an internal control review of highly and moderately vulnerable assessable units in support of Servicewide security. These services also included the public awareness campaign for the new paper check.

Management and Professional Services

These services are obtained primarily to provide support for the Service's improvement projects. They have included the development of media resources used in conjunction with the Federal/State Equity program and the collection, analysis and dissemination of statistical data used to prepare the International Monetary Fund Yearbook.

In FY 1987, efforts will continue on the Direct Deposit/Electronic Funds Transfer (DD/EFT) project. These services include a pilot project to simplify and semi-automate the now cumbersome DD/EFT enrollment process as well as to capture point-of-sale opportunities. In addition, plans are underway to develop detailed credit policies, standards and guidelines to complement OMB credit management policy statements; to collect, analyze and disseminate information on agency credit and loan programs; and to interpret the Deficit Reduction Act of 1984 for agencies and monitor their compliance with on-site reviews and workshops.

Special Studies and Analyses

These services provide assistance to the Service in support of the improvement projects. These services have included a benefit/cost and risk analysis for the National Financial Center - Regional Financial Center computer sizing project. In addition, a quantitative risk analysis will be conducted at one of the Regional Financial Centers in FY 1986.

TUESDAY, FEBRUARY 25, 1986.

BUREAU OF THE PUBLIC DEBT

WITNESSES

GERALD MURPHY, FISCAL ASSISTANT SECRETARY, DEPARTMENT OF THE TREASURY

W.M. GREGG, COMMISSIONER OF THE PUBLIC DEBT

TAYLOR E. JONES II, DIRECTOR, DIVISION OF FINANCIAL MANAGEMENT

JILL KENT, DEPUTY ASSISTANT SECRETARY FOR DEPARTMENTAL FINANCE AND PLANNING

RICHARD L. GREGG, DEPUTY COMMISSIONER, BUREAU OF THE PUBLIC DEBT

INTRODUCTION

Mr. ROYBAL. The Commitee is in session this morning to hear from the Department of the Treasury, the Bureau of Public Debt.

Mr. MURPHY. Yes, sir. Thank you.

Good morning, Mr. Chairman.

I appreciate the opportunity to discuss the fiscal year 1987 resource requirements for the Bureau of the Public Debt. The fiscal year 1987 request for the Bureau is $180,656,000.

The Bureau is reflecting significant savings as a result of implementation of the move to full book-entry. These savings are indicative of the Bureau's automating commitment to improve its operations through automating securities handling procedures. The move to full book-entry provides improved service and reduces the risk of lost securities. Net cumulative savings over the seven-year phase-in period are anticipated to be $46 million.

This year's request includes resources to support a higher savings bond workload and funding for a new computer system. The new computer system will replace technology outdated system with a system that will support the public debt activities for years to come.

The fiscal year '87 request also includes funds to reimburse the Federal Reserve Banks for fiscal agent functions. This amount represents only a portion of the total cost the Banks will incur. The Admininstration plans to propose legislation that will authorize charging fees to purchasers of marketable and special securities. The fees collected will be utilized to offset Federal Reserve Bank costs in lieu of reimbursements by the Bureau from appropriated funds. The detailed of the proposed legislation are not yet available.

Mr. Chairman, this concludes my prepared statement on the Bureau of the Public Debt appropriation request. Commissioner Gregg will cover the request in more detail.

Mr. ROYBAL. Thank you.

Mr. Gregg, will you proceed in any manner that you may desire.

Mr. GREGG. Mr. Chairman and members of the Committee, I appreciate this opportunity to discuss with you our fiscal year 1987 appropriation request for administering the Public Debt.

The appropriation provides funds for both the Bureau of the Public Debt and the U.S. Savings Bonds Division. The latter is a separate organization responsible for promoting the sale of savings bonds. The requirements of the Savings Bonds Division will be discussed separately.

The Bureau of the Public Debt is a service organization responsible for the administrative functions required to conduct Treasury's debt financing activities and accounting for the public debt. The Bureau maintains offices in Parkersburg, West Virginia, and Washington, D.C.

The total appropriation request for administering the Public Debt in fiscal year 1987 is $198.8 million. This represents a net increase of $12 million over the amount available for fiscal year 1986.

FY 1987 APPROPRIATION REQUEST

For fiscal year 1987, the Bureau of the Public Debt is requesting $180,656,000 and 1,980 average positions, an increase of $10,314,000 and a decrease of 137 average positions. The reduction in the number of average positions is the net of 13 additional average positions required for workloads in the marketable and savings bonds programs, and reductions of 150 average positions saved through improved automated processing and other reductions.

The budget request includes $37,098,000 to reimburse the Federal Reserve Banks for the work they perform as fiscal agents of the Treasury. This amount is not equal to the anticipated operating costs of the Reserve Banks during fiscal year 1987. The Administration is drafting proposed legislation that will authorize the establishment of fees to be paid by purchasers of marketable and special Treasury securities. These fees, at a minimum, would be applicable to securities maintained in the commercial book-entry system, and for securities maintained for individual investors in the Treasury system. The details of the proposed legislation are not firm at this time, but the objective is to offset the costs now incurred by the Reserve Banks for their work on marketable and special Treasury securities. Because work has just begun on drafting the proposed legislation, I am unable to describe the amounts of the potential fees or the specific activities to which they may be applicable.

TREASURY DIRECT

The Bureau of the Public Debt will implement the new automated book-entry system for all new issues of marketable notes and bonds in mid 1986. The new system, which has been named Treasury Direct, is being designed and developed by the Federal Reserve Bank of Philadelphia under the control and direction of the Bureau.

Treasury Direct is an integrated book-entry computer system to establish, maintain, and service accounts for investors in marketable Treasury securities. This system will enable the Bureau to provide maximum reinvestment opportunities, as well as prompt

direct service to individual investors. The savings to be achieved through this initiative over a seven-year period are $46 million, and approximately 388 average positions. Savings of $1,963,000 and 99 average positions are reflected in the 1987 appropriation request.

MICROFILMING CONTRACT

The Bureau is requesting a modest increase of $182,000 to fund a Federal Records Center contract for microfilming approximately 5,000 numerical ledgers currently stored at the Washington National Records Center. This contract is necessary to comply with a notice from the National Archives and Records Center requiring the Bureau to dispose of these stored records.

SAVINGS BOND PROGRAM

In past years, I have discussed with you the positive public response to the variable rate savings bond introduced by Treasury in November 1982. The response to this initiative is still favorable. Savings bond sales are expected to be 82.8 million pieces in fiscal year 1986, and increase of 13 percent over the initial fiscal year 1986 estimate, and 90 million pieces in fiscal year 1987.

Our appropriation request includes an increase of $4.5 million to manage these additional workloads. This increase has been minimized by productivity savings resulting from the use of optical character recognition/magnetic ink character recognition, OCR/MICR, electronic equipment for processing savings bond issues.

TECHNOLOGICAL IMPROVEMENTS

The Bureau is requesting $5 million to replace its existing mainframe computer. The current system has been installed since 1976 and has been upgraded several times. However, it uses outdated memory and processor technologies which do not provide the flexibility to meet the Bureau's future data processing, telecommunication, and management information needs.

The new equipment will support the redesign of Bureau applications which will improve accounting controls, increase security, raise the level of service, and provide more accurate and timely management information. Cost savings of $7.6 million are anticipated over the new system's six-year life cycle.

CONCLUSION

Mr. Chairman, this concludes my remarks. We will be glad to answer any questions that you and the members of your Committee may have.

FULL BOOK-ENTRY

Mr. ROYBAL. Thank you, Mr. Gregg.

Mr. Murphy, what is the difference between the full book-entry that you are now going to use and that system that you use today?

Mr. MURPHY. The full book-entry that we referred to as the Treasury Direct system will put Treasury notes and bonds onto full book-entry for the first time.

Mr. ROYBAL. You mean you have not had them up to now?

Mr. MURPHY. Not in full book-entry form. Those have been partly in definitive form.

Mr. ROYBAL. By definitive form you mean what?

Mr. MURPHY. A physical security is issued. Beginning in mid 1986, we will have the new issues of Treasury notes and bonds in book-entry form.

Mr. ROYBAL. Well, I still do not get the difference between the book-entry form and what you use now.

Will you explain a little further?

Mr. MURPHY. Surely.

At the moment we have been issuing Treasury bills, the short-term securities, in book-entry form. But under the current Treasury system we are still issuing definitive physical securities for the longer-term securities, the Treasury notes and the Treasury bonds.

Beginning in July, through this system which the Federal Reserve Bank of Philadelphia is going to operate for us, we will now be able to issue all Treasury marketable securities in the book-entry electronic form.

PROGRAM INCREASE

Mr. ROYBAL. Both you and Mr. Gregg point out various instances of savings as a result of this particular system. Still you are requesting an increase of over $10 million and a decrease of 137 average positions in your 1987 budgetary request.

Mr. MURPHY. Yes, sir.

Mr. ROYBAL. If there is going to be that much savings, why are you asking for an increase?

Mr. MURPHY. I will let Mr. Gregg add to this, but basically the decrease in the number of average positions is largely as a result of this new Treasury Direct system. We will actually be reducing 150 in total.

So our personnel costs will go down beginning in FY 1986, and there will be further reductions beginning this year and on into FY 1987 and subsequent years.

However, there are a number of cost increases and decreases in the request. There is a savings from the Treasury Direct system in FY 1987 of $1,963,000. However, there are some offsetting increases, such as the new mainframe computer of $5 million, and there are workload increases in some of our other areas, including savings bonds, which will cost an additional $4.5 million.

The full savings from Treasury Direct will be realized in subsequent years, so we will not immediately be getting the full benefit.

Mr. ROYBAL. So, in order to bring about savings in FY 1987 and thereafter, you are requesting an increase of over $10 million now?

Mr. GREGG. May I offer this information, Mr. Chairman?

We are asking for an increase of a little over $10 million. Some of the elements that go into making up that amount are $5 million applicable to the new computer; $4.5 million for workload in the savings bond program; $182,000 for the Federal Records Center Microfilming Project; and an item of nearly $5 million just to maintain current service levels.

On the other side of that picture, we have a separate decrease of $1.9 million which we expect to realize through the efficiencies of the Treasury Direct system.

Mr. ROYBAL. But you are still investing $10 million now in order to bring about those savings?

Mr. GREGG. Well, the $10 million we are investing is not necessarily related to the electronics system called Treasury Direct.

Mr. ROYBAL. Well, maybe not, but it is still a $10 million increase over last year's appropriation.

Mr. GREGG. Oh, yes.

Mr. ROYBAL. That is the problem—under Gramm-Rudman, it is very difficult to talk about increases.

Mr. GREGG. Our budget primarily is related to workload. We have to respond to it as we receive it. So we put our budget together, first, with an eye toward the volume of work that we expect to come in the door.

Mr. ROYBAL. All right.

Will $10 million actually be spent for necessary equipment for more efficient methods that will bring about the savings that you are talking about?

I would like to have some justification for the $10 million increase under Gramm-Rudman.

Mr. MURPHY. Roughly speaking, as you know, we have very little control over the volume of savings bond transactions, for example. And there we have a large increase in work volume which we will have to pay for.

In the case of the computer acquisition, that current piece of equipment is 10 years old now, and it needs to be replaced. That will result in future savings of $7.6 million over a six-year period.

Mr. ROYBAL. All right.

Now, how much of the $10 million is for the computer?

Mr. GREGG. Half, $5 million.

Mr. ROYBAL. All right.

So you have an additional $5 million. How is that distributed?

Mr. GREGG. Well, nearly 4.5 million of that is related to the workload in the Savings Bond Operations Office in Parkersburg, West Virginia.

Mr. ROYBAL. But it is an increase over last year, in spite of the fact there are 137 average positions less?

Mr. GREGG. Yes, we expect sales to improve. And sales increase the volume of savings bonds workload. We think of them in terms of pieces, not dollars.

The recording of the issuance of savings bonds and the handling of the money, the proceeds, the receipt of redeemed savings bonds, the microfilming, the auditing, the recordation of their retirement, that is the work that we are doing in Parkersburg. And when the savings bond program prospers, we feel it in terms of volume of work for us to do.

Mr. ROYBAL. All right.

Let me put it another way. What will you do with the additional $5 million that you are not doing now?

Mr. GREGG. Well, we will try to keep up with the workload as it comes into the Parkersburg office and that is about it. We will just try to get the work done.

It will be the same kind of work we are doing now at a higher volume level.

PROGRAM INCREASES

Mr. ROYBAL. I can see the $5 million for more sophisticated equipment. You should have the best there is.

However, I am still not clear how the other $5 milion is going to be applied and how you are going to use it, and how that will result in the savings that you have cited.

Mr. GREGG. Well, the savings does not necessarily relate to the money we are spending in 1987 for workloads. It also reflects work that has been done in projects that have been worked on in 1986 and 1985 and 1984.

Treasury Direct, as a brand new integrated computer system, is separately at work. It will come to fruition in mid 1986, and we will start at that point to enjoy the benefits, in terms of dollars and people, of that system.

Mr. ROYBAL. Well, I am trying to gather some information that I can use in arguments in justifying this Committee's granting a $10 million increase over last year.

Now, I can understand $5 million for the equipment, but I am not quite clear how you are going to use the other $5 million to do anything that you have not done before that will bring about a reduction in staff and an increase in revenue.

Mr. MURPHY. I think, Mr. Chairman, that the $4.5 million increase to handle the higher work volume reflects the success of the variable rate savings bond program which is generating a lot of new investors. Transactions in those securities benefit the government certainly, and we have to handle that increased workload volume.

We cannot control that in any sense so we look for reductions in other areas. It has been as a result of a two- or three-year effort to go to book-entry on a marketable securities that enable us to reduce our average positions at the same time that we are experiencing increases in workload in other areas.

Right now we will have a cost increase for handling that increased savings bond workload, and we will not fully realize the savings from the Treasury Direct system until years beyond FY 1987. But there will be some offsets in the future as a result of the improvements made in the marketable area.

Mr. ROYBAL. Well, we might get back to this a little later on because I really do not understand it.

Mr. Skeen.

Mr. SKEEN. Along the same line, Mr. Chairman and Mr. Murphy, I think I understand what you are getting at, but give me a benefit ratio.

You say that your new sales system has been a success. Give me some idea how successful it has been.

Mr. MURPHY. In the savings bond program, the 1986 sales were expected to be 82.8 million pieces, individual bonds.

Mr. SKEEN. And Mr. Gregg said you used the term "pieces" on this program.

Mr. MURPHY. Yes. Individual savings bonds.

Mr. MURPHY. The FY 1987 sales are expected to be 90 million pieces.

An increase of almost 9 percent.

Mr. SKEEN. Almost 9 percent.

Mr. MURPHY. In a one-year period.

Mr. SKEEN. That is an additional workload?

Mr. MURPHY. Yes, sir.

Mr. SKEEN. Okay.

REPLACEMENT COMPUTER

Let us go back to your mainframe computer. You have got a computer that is 10 years old. How much modification or update have you been budgeting for year by year, if any?

Mr. MURPHY. There have been a number of updates over the years. The system has been patched and what have you. I do not know if we have some specific figures, but if those are not readily available, we could provide them to you.

Mr. GREGG. We could give you any amount of detail on that.

We have tried to update it as frequently as we could. We have purchased elements of it. But we have gotten to the point now where the manufacturer will no longer maintain it.

Mr. SKEEN. Five million will get you a mainframe computer?

Mr. GREGG. Well, five million dollars in 1987, and this, as we explained to the Committee last year, is a phased approach. We did some preliminary work in 1986. We will do some more in 1987, and thereafter.

Mr. SKEEN. So it is a continuing program?

Mr. GREGG. Yes.

Mr. SKEEN. It is always amazing to me that we have run into obsolescence on computers, as much as we depend on them in these agencies. And, suddenly, we are going to have to redo the whole system.

I can understand it because the technology changes and moves very quickly.

I would like to see us get into a program where we are continually budgeting for updating in significant amounts so that we do not have to bite a big chunk of it off in times like this because this makes it real tough. The Chairman is right. We have got to go sell this point.

We want you to have the equipment that you need and the money you need to run your programs particularly if you are showing an increase in your program and a better benefit ratio to the cost in going ahead. That makes our arguments all the easier.

You folks are doing the kind of job we want. You are helping to make our government work and work right.

Thank you, Mr. Chairman. Thank you for the information. I appreciate it.

IMPACT OF REDUCTIONS

Mr. ROYBAL. Mr. Gregg, what would happen if this committee did not approve the $10,314,000 increase?

Mr. GREGG. We, of course, are constantly looking at all of the parts of our resource structure that allow us any discretion, such

as travel, publications, and training. In themselves, they do not really give us enough latitude to absorb the kind of figures that you are mentioning. If the funding is not provided, we would have to figure out what areas of our programs would be least affected by reductions, and it would probably cause us to reduce the amounts designated to reimburse the Federal Reserve Banks for their services to Treasury.

Mr. ROYBAL. In other words, it would be rather difficult, would it not, for you to operate without that new computer?

Mr. GREGG. Well, yes, it would be very difficult. It would be difficult to operate without any of these funds because the workload is not discretionary. No one has ever instructed me to quit doing any of it.

SAVINGS BOND WORKLOAD INCREASE

Mr. ROYBAL. No. But you have told the Committee that there will be decreases in personnel. Though there will be less personnel, and you will have a new computer, you are requesting an increase to handle workload increases. I do not understand how you would use the other $4.5 million.

Can anyone enlighten me a little bit more? Maybe I am just not able to understand.

Mr. JONES. Mr. Chairman, I do not know how much I can add, but the additional $4.5 million is needed to cover the savings bond workload increase. We are talking about an increase of 7.2 million pieces, to be issued. And we, as I am sure you are aware, pay fees to the issuing agents for issuing those bonds.

We also have increased postal costs for mailing those bonds and we have increased printing costs. Those are the components that make up the additional $4.5 million. I can provide some detail for the record if you would like. But as Mr. Gregg has said, with the increase in sales, we have no alternative but to incur those costs.

There are some offsetting reductions, and we have some inflationary costs in there that make up the remainder of the $4.5 million.

TREASURY DIRECT

Mr. ROYBAL. You know, Mr. Jones, the other thing that worries me is the wording under Treasury Direct in which Mr. Gregg says that the savings to be achieved through this initiative over a seven-year period is $46 million, and approximately 388 average positions. That is quite a reduction in staff.

Mr. GREGG. Over a period of several years.

Mr. ROYBAL. Seven years?

Mr. GREGG. We expect it to work, beginning with 1986.

Mr. ROYBAL. Over a period of seven years. Now, that will be due, no doubt, to the efficiencies that will be brought about with the new computer.

Mr. GREGG. Well, this system, Treasury Direct, should really be thought of as separate from the $5 million we are asking for the Bureau's computer.

Treasury Direct is developed and housed in the Federal Reserve Bank in Philadelphia. The workings of Treasury Direct involve a

centralized computer facility in Philadelphia hooked up to all the Federal Reserve districts and to Treasury, and it will operate in that manner.

The savings in work force that we speak of in our appropriations request that we testified on have to do with the changing nature of the work that will be done in our office here in Washington because of Treasury Direct coming in through a distance.

Mr. ROYBAL. All right.

Treasury Direct, using the present equipment and present methods, will, over a period of seven years, bring about $46 million in savings, and will reduce staff by 388 positions, is that correct?

Mr. GREGG. Yes sir.

Mr. ROYBAL. All right.

So that has to do then with the request for $10 million. All right.

Now, the $5 million that we already know will be used for equipment will not necessarily be used to bring about any savings in Treasury Direct. So that is separate and apart from Treasury Direct.

Mr. GREGG. Yes sir.

Mr. ROYBAL. It will be used for other things else.

Mr. GREGG. For the Bureau

Mr. ROYBAL. And in the Treasury.

Mr. MURPHY. It will in itself produce savings in later years.

FY 1987 WORKLOAD INCREASE

Mr. ROYBAL. All right.

Now, what about the other $4.5 million?

Mr. MURPHY. The other $4.5 million is again separate from Treasury Direct and separate from the headquarters mainframe computer. Our Savings Bond operations in Parkersburg must pay the cost of processing a lot more workload.

Mr. ROYBAL. All right.

So we have then three separate places now where this $10 million is to be used.

There are three separate operations. One is Treasury Direct, and one is the printing of the bond operation. Is that correct?

Mr. MURPHY. I believe we were also looking at the headquarters computer as a separate item.

Mr. ROYBAL. $5 million is going to be used for the computer. But what exactly is the $4.5 million going to be used for?

Mr. MURPHY. Taylor, can you break down again how the $4.5 million breaks out on the savings bonds?

Mr. JONES. I do not have the full detail here, but I can give you the categories of the increase and the actual numbers for the record.

For the issue of savings bonds, this is an increase in savings bonds issues that we are talking about, of approximately 7.2 million pieces. We pay issuing agents a fee of approximately 24 cents per bond to issue the bond on average. There is a fee structure that we use that averages out at 24 cents.

In addition, we pay postage for the bonds that are mailed to the owners, and we also pay to have the bonds printed. We pay to have the bonds shipped throughout the system so they are available to

the purchaser when he purchases them. The total of those costs associated with the seven million piece increase is $4.5 million. That is an operating cost over and above processing the workload that we are processing in fiscal 1986.

But because we are expecting more sales, it is going to cost us more.

Mr. ROYBAL. You are expecting more sales and therefore you will be paying more in fees.

Mr. JONES. That is correct.

Mr. MURPHY. Yes, the financial institutions throughout the country who are issuing and redeeming savings bonds get paid a fee out of this appropriation.

FEE STRUCTURE

Mr. ROYBAL. All right.

Do you believe that the fees are at a proper level with the services being performed?

Mr. GREGG. I think that the fee structure could be subject to some change in the near future. We are studying it very closely right now.

Changes in the structure of the fee schedule for issuing agents probably would stem from a reexamination of the technology used by agents around the country to issue the bonds, whether they are mostly computerized, or whether there are still some that are being hand inscribed, rather than any other one single cause, but we are in the process of making up our minds about changes for that fee structure.

FEDERAL RESERVE BANK SERVICES

Mr. ROYBAL. Now, with regard to the Federal Reserve Banks, what services do they perform and what is the estimated 1987 amount that you will give to them for that service?

Mr. GREGG. In our fiscal year 1987 appropriation request, we have about $37 million that will be used to reimburse the Federal Reserve Banks. This is perhaps $42 million short of the actual cost of the work that they will do for us.

The Federal Reserve Banks act as fiscal agents for the United States at the direction of the Treasury in this capacity, and they serve very much like field offices of the Bureau of the Public Debt. The Federal Reserve Banks deal with the public and the financial community in the announcement of marketable security offering. They distribute information about Treasury offerings and handle the subscriptions from investors. They also accept the auction data for the Bureau, credit the auction receipts to the Treasury accounts, and issue securities to investors against payment.

The Federal Reserve Banks also conduct various servicing transactions involving Treasury securities, such as exchanges and transfers. They maintain book-entry accounts. They maintain a facility for wire transfer of securities from city to city and from bank to bank. And they redeem securities and coupons at their maturity. That is on the marketable side of the house.

In the savings bonds area, the Federal Reserve Banks qualify the issuing agents and the paying agents for us. They maintain savings

bond stock and distribute that stock among the agents. They maintain consignment accounts on stock held by issuing agents and serve as a funnel for all sales and redemption activity involving these agents.

They also conduct a good many savings bond transactions themselves.

The Federal Reserve Banks settle with the agents for issues and redemptions and perform a wide variety of services in the savings bond program.

I might add that they do all these things extremely efficiently, very effectively. It is less expensive for the Treasury to use the facilities of these banks than it would be for the Treasury to try to duplicate those activities around the country.

SERVICE TO INVESTORS

Mr. ROYBAL. From time to time, the Committee receives complaints from small investors, usually about the difficulty in purchasing securities, and also about delays in receiving payment when securities are redeemed.

Now, overall, how would you rate the quality of service given to small investors?

Mr. GREGG. Overall I feel that the quality of service that is provided to small investors in Treasury securities is pretty high. There are, regrettably, lapses from time to time where an investor has not received a check which we have to use the mails to get to the investor.

There are some other shortcomings once in awhile for which we have to accept responsibility.

When they are measured up against the volume of the whole activity, the number of individual investors, the number of transactions, the number of securities, the number of interest payments and redemption payments that are involved, I think that the overall rating is pretty high.

Mr. MURPHY. But I might add that the Treasury Direct system being set up in the Federal Reserve Bank of Philadelphia should improve service even more to the small investors.

Mr. GREGG. It will certainly eliminate one problem area, and that is the mailing of checks to investors. Because the Treasury Direct system will be built around an electronic payment mechanism.

Mr. ROYBAL. We do not get complaints that often, but we do get complaints, and the rest of the members of the Committee no doubt get complaints also.

These complaints are probably because of the delay in getting their payments more than anything else.

Now, you tell the Committee you use the Postal Service to mail those checks, and I can understand some of the delays that come about by the use of the Postal Service.

But what other system could you use?

Mr. GREGG. At present, there is not an acceptable alternative. With Treasury Direct up in Philadelphia, there will be.

Mr. ROYBAL. There will be?

Mr. GREGG. Yes. And that is the use of electronic payments.

CONSULTING AND RELATED SERVICES
(obligations in thousands of dollars)

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
	1985 Actual	1986 Estimate	1987 Estimate
Consulting Services	867	252	--
Management and Professional Services	49	60	170
Special Studies and Analyses	40	482	--
Management and Support Services for Research and Development	--	--	--
Total Consulting and Related Services	956	794	170

Mr. ROYBAL. I see.

Mr. MURPHY. Direct to financial institutions.

Mr. ROYBAL. And that will be directly to their own account in any bank of their choice?

Mr. MURPHY. Right.

Mr. GREGG. Yes, sir.

Mr. ROYBAL. Well, that will be a tremendous improvement.

Mr. GREGG. It should have advantages for everybody.

Mr. ROYBAL. Sure.

Mr. GREGG. The government and the investors.

JUSTIFICATION OF INCREASE

Mr. ROYBAL. I would like to go back to the first questions.

Would you please provide for the Committee in writing a very brief explanation as to how the additional $4.5 million will be used?

Mr. GREGG. Yes, sir.

Mr. ROYBAL. We understand how the $5 million will be used for the computer. Because we are going to have to justify any increase, particularly because of Gramm-Rudman, it is not going to be easy to sell increases to the House.

Mr. GREGG. Yes, sir, we will do that.

[Information follows:]

Question from Chairman Roybal

Mr. ROYBAL. What, exactly does the $4.5 million increase in savings bonds workload represent? How will this increase be used?

Mr. GREGG. Savings bond sales are expected to increase by 7.2 million pieces, or 8.7 over the 1986 estimate, while redemptions are expected to increase by 3.2 million pieces, or 4.3% over the 1986 estimate. These increases are the result of the recent revitalization of the savings bond program brought about by the introduction of a variable interest rate. The resultant workload increases are not controllable and must be processed by the Bureau and its agents as they occur. The requested increase of $4.5 million represents the additional resources required to process the projected increases in savings bond workloads in 1987. The specific detail of how these additional resources will be used is as follows:

Description:	*Amount*
Personnel costs	$126,000
Shipping bond stock	10,000
Mailing bonds	908,000
Printing bonds	564,000
Paying agent fees	1,088,000
Issuing agent fees	1,735,000
Miscellaneous costs	117,000
Total	4,548,000

These resource requirements are solely the result of increased savings bond sales and redemptions. The implementation of Treasury Direct and the resultant savings anticipated in the marketable securities program will have no effect on the savings bond workload or the resources necessary to process that workload. Without the requested $4.5 million to process the savings bond workload increase, the Bureau will not be able to provide timely service to current savings bond owners or new savings bond purchasers.

Mr. ROYBAL. Thank you very much.

Thank you very much, Mr. Gregg, Mr. Murphy and your colleagues for your presentation this morning.

[The justifications follow:]

Administering the Public Debt, Bureau of the Public Debt

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1987
(Dollars in thousands)

	PERMANENT POSITIONS	AVERAGE POSITIONS	Amounts
FY 1986 Appropriation (continuing resolution) Enacted By Congress	2,316	2,390	$195,225
ADJUSTMENTS:			
(1) PROPOSED PROGRAM SUPPLEMENTAL	--	--	--
(2) PROPOSED RESCISSION	--	--	--
(3) REDUCTIONS UNDER P.L. 99-177	--	--	($8,395)
PROPOSED AUTHORIZED LEVEL FOR FY 1986	2,316	2,390	$186,830
Estimate for FY 1987	2,336	2,253	$190,614

DIRECT OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1987

	Actual		Authorized Level		Budget Estimate		Increase (+) or Decrease (-) for 1987					
	FY 1985		FY 1986		FY 1987		Total Changes		Program Changes		Other Changes	
	Avg. Pos.	Amount	Avg. Pos.	Amount	Avg. Pos.	Amount	Avg. Pos.	Amount	Avg. Pos.	Amount	Avg. Pos.	Amount
1. Processing and accounting for:												
(a) Savings securities	1,053	$114,358	1,055	$107,900	1,045	$120,387	-10	$12,487	10	$7,048	-20	$5,439
(b) Marketable and special securities	1,096	865,336	1,062	862,442	935	860,269	-127	102,173)	3	82,682	-130	184,855)
Subtotal Activity 1	2,149	$179,894	2,117	$170,342	1,980	$180,656	-137	$10,314	13	$9,730	-150	$584
2. Promotion of the sale of savings-type securities	270	$17,704	273	$16,488	273	$18,158	0	$1,670	0	$500	0	$1,170
Unobligated balance	0	$1,134	0	$0	0	$0	0	$0	0	$0	0	$0
Total appropriation, authorized level and budget estimate	2,419	$198,732	2,390	$186,830	2,253	$198,814	-137	$11,984	13	$10,230	-150	$1,754
Permanent positions established	2,425		2,316		2,376		-140		13		-153	

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987

(Dollars in thousands)

Program Increases:	Activity 1				Activity 2		Total	
	Savings Securities		Marketable and Special Securities		Promotion of Sales of Savings Bonds			
	Average Positions	($000) Amount	Average Positions	($000) Amount	Average Positions	($000) Amount	Average Positions	($000) Amount
1. Increases for technological improvements:								
A. Replacement of mainframe computer	2	2,500	3	2,500	0	0	5	5,000
Subtotal Increases for technological improvements	2	2,500	3	2,500	0	0	5	5,000
2. Other Program Increases								
A. Savings Securities Workload Increase	8	4,548	0	0	0	0	8	4,548
B. Microfilming Contract	0	0	0	182	0	0	0	182
C. Consumer and Media Information	0	0	0	0	0	500	0	500
Subtotal Other Program Increases	8	4,548	0	182	0	500	8	5,230
Total Program Increases	10	7,048	3	2,682	0	500	13	10,230

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987

(Dollars in thousands)

	Activity 1				Activity 2		Total	
	Savings Securities		Marketable and Special Securities		Promotion of Sales of Savings Bonds			
	Average Positions	(8000) Amount	Average Positions	(8000) Amount	Average Positions	(8000) Amount	Average Positions	(8000) Amount
3. Maintaining FY 1986 Program Levels Reduced by P.L. 99-177	0	4,848	0	2,806	0	741	0	8,395
4. Increases necessary to maintain current service levels:								
A. Within grade increases	0	204	0	329	0	96	0	629
B. Employee benefits	0	176	0	266	0	37	0	479
C. Travel and transportation of things	0	1	0	23	0	49	0	73
D. Printing and reproduction	0	201	0	230	0	86	0	317
E. FTS and other communications	0	5	0	169	0	54	0	228
F. Annualization of current year ADP lease cost	0	0	0	121	0	0	0	121
G. Contractual services	0	2,317	0	267	0	230	0	3,014
H. Supplies and materials	0	5	0	28	0	4	0	37
I. Equipment	0	114	0	41	0	13	0	168
Total, Increases necessary to maintain current service levels	0	3,223	0	1,474	0	569	0	5,266

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987

(Dollars in thousands)

	Activity 1				Activity 2			
	Savings Securities		Marketable and Special Securities		Promotion of Sales of Savings Bonds		Total	
	Average Positions	($000) Amount	Average Positions	($000) Amount	Average Positions	($000) Amount	Average Positions	($000) Amount
5. Program reductions, non-recurring costs, and productivity savings:								
A. Program reductions	0	0	-31	-6250	0	0	-31	-6250
B. Nonrecurring costs	0	-2378	0	-922	0	-140	0	-3440
C. Productivity savings and management improvements	-20	-254	-99	-1963	0	0	-119	-2217
Total, Program reductions, non-recurring costs, and productivity savings:	-20	-2632	-130	-9135	0	-140	-150	-11907
Total, Increases or decreases FY 1987 compared with FY 1986 authorized level	-10	12,487	-127	-2173	0	1,670	-137	11,984

Administering the Public Debt, Bureau of the Public Debt

SUMMARY JUSTIFICATION OF FY 1987 BUDGET ESTIMATE

General Statement

The Bureau of the Public Debt is responsible for administering the laws and regulations pertaining to public debt financing and operations within the framework of policies established by the Secretary of the Treasury. The Bureau's primary activities are the issuance, servicing and retirement of public debt securities and accounting for the public debt and its related interest cost. It also has a general responsibility for the conduct or direction of transactions in public issues of those Government agencies for which the Treasury acts as agent.

This appropriation provides funds for the direct operating costs of the Bureau of the Public Debt and the U.S. Savings Bonds Division, for reimbursing the Federal Reserve Banks for services performed in their capacity as fiscal agents of the United States, for payment of fees at stipulated rates to financial institutions and others for issuing and redeeming savings-type securities, and for payment of postage and registry fees to the U.S. Postal Service for delivering securities. (The U.S. Savings Bonds Division is a separate organizational entity presenting a separate, more detailed budget submission.)

Direct obligations are expected to be $198,814,000 in FY 1987. The changes in resource requirements in FY 1987 consist of $10,230,000 for program increases, $8,395,000 to maintain FY 1986 program levels reduced by P.L. 99-177 and $5,266,000 to maintain current levels, offset by decreases totaling $11,907,000.

The increases and decreases are distributed between the Bureau of the Public Debt and the U.S. Savings Bonds Division as follows:

	Bureau of Public Debt	U.S. Savings Bond Division
Program increases	$ 9,730,000	$ 500,000
Maintaining FY 1986 program levels reduced by P.L. 99-177	7,654,000	741,000
Increases necessary to maintain current levels	4,697,000	569,000
Program reductions, non-recurring costs, and productivity savings	-11,767,000	-140,000
	$10,314,000	$1,670,000

The following is a summary of the program increases by activity:

1(a) PROCESSING AND ACCOUNTING FOR SAVINGS SECURITIES

This activity includes the issuance, servicing, and retirement of savings securities. Series EE savings bonds constitute a major workload for the Bureau. They are sold to individuals in relatively small denominations, are registered in the owner's name, and are issued in large volume.

Functions performed include: prescribing the specifications for, ordering, storing, and distributing security stock; issuing securities, both directly and through the Federal Reserve Banks and other agents; establishing and maintaining records of the registration and status of each security; replacing lost, stolen, mutilated or destroyed securities and reissuing securities upon request; maintaining accounts of individual owners of current income savings bonds and authorizing payment of semi-annual interest; auditing and recording redeemed securities; destroying retired securities; maintaining permanent custody of microfilm copies of all retired securities; authorizing payment of fees to issuing and paying agents for the issuance and redemption of savings bonds; and maintaining accounting control over financial and security transactions, interest costs, and the accountability of Federal Reserve Banks and branches for savings securities.

1987 Program

Savings bond sales are expected to total 82.8 million pieces in FY 1986, an increase of thirteen percent over the initial FY 1986 estimate, and 90 million in FY 1987. These increases result from the favorable response to variable interest rates introduced by Treasury in late 1982. Active promotion by the U.S. Savings Bonds Division (USSBD) and the competitive interest rates paid have made the savings bond an attractive vehicle for savings.

Increasing savings bond workloads will necessitate an additional 8 FTE and $4,548,000 in the savings bond program in FY 1987. This increase has been minimized by productivity savings resulting from the use of Optical Character Recognition/Magnetic Ink Character Recogition (OCR/MICR) electronic equipment for processing savings bond retirements. The additional funding requested is required for personnel, transportation, postage, and printing costs, and the higher costs incurred by issuing and paying agents in managing the increased workload.

Summary of Program Increases by Activity (continued):

The Bureau is also requesting additional resources to replace the existing mainframe computer. The savings bond operations conducted by the Bureau are highly automated, making it essential that the computing equipment be kept up-to-date. It is not economically feasible to further upgrade the current mainframe computer. Therefore, the Bureau has developed a plan for replacing the existing equipment. This plan, the Nineteen Ninety Electronic Workplace, Project NEW, is a continuation of a program initiative discussed in the Bureau's FY 1985 and FY 1986 budgets. Funding for this initiative will allow the Bureau to replace the existing mainframe computer with one that provides the technological features required to provide more accurate and timely information for decision making, transmit data electronically to and from the Federal Reserve Banks, improve accounting controls, and increase security. This initiative, totaling $5.0 million, is a major step toward fully automating Bureau systems with current technology, thus making public debt processing more efficient and effective. The resources required for Project NEW cross both the savings bond and marketable securities program lines. Project NEW is expected to reduce staffing requirements by 18 FTE work-years and produce cumulative savings of approximately $7.6 million over its six-year life cycle.

1(b) PROCESSING AND ACCOUNTING FOR MARKETABLE AND SPECIAL SECURITIES

Marketable and special Treasury securities comprise 95% of the outstanding public debt. Functions performed under this activity include: prescribing the specifications for, ordering, storing and distributing securities; directing the handling of subscriptions, conducting auctions and making allotments; issuing securities, either directly or through the Federal Reserve Banks; maintaining accounts reflecting ownership of registered and book-entry securities and authorizing the issuance of checks for interest, discount and principal; adjudicating claims on lost, stolen or destroyed securities; conducting transactions on outstanding securities including exchanges, transfers and redemptions; receiving, auditing, recording, storing and destroying redeemed securities and interest coupons; and maintaining control over public debt financial transactions in marketable and special securities.

1987 Program

Marketable and special securities provide the Treasury with the major portion of the funds needed to meet Treasury borrowing requirements for new cash or to refund maturing obligations. The marketable portion of the debt rose by 151 percent from FY 1976 through FY 1983, and increased another 15 percent in FY 1984. Conversion of Treasury securities holdings to book-entry form has significantly reduced costs and improved the efficiency and security of operations.

Summary of Program Increases by Activity (continued):

The Bureau decided in FY 1983 to move to full book-entry for marketable securities and initiated plans for developing the TREASURY DIRECT System, formerly known as (T-DAB). The TREASURY DIRECT System is being designed and developed by the Federal Reserve Bank of Philadelphia under the control and direction of the Bureau. By moving to full book-entry for all new issues of marketable securities, the Bureau expects to achieve considerable savings from FY 1987 through FY 1990 while providing a highly automated securities processing system that will serve investors in marketable securities who wish to deal directly with the Treasury. At the same time, the Bureau will continue to provide services to investors who are holders of outstanding issues of marketable definitive securities.

The Bureau's request includes the funding required to support the projected increases in marketable securities workloads. It also includes funding for Project NEW, an automation effort to replace the Bureau's existing mainframe computer with equipment that will accommodate projected workload increases and provide flexibility in responding to other requirements.

The FY 1987 budget request includes productivity savings of 99 FTE and $1,963,000 due to the move to full book-entry through the implementation of the TREASURY DIRECT system in July 1986.

The Bureau's request also includes funding a Federal Records Center contract for microfilming approximately 5,000 numerical ledgers currently stored at the Washington National Records Center. This contract is necessary to comply with a notice from the National Archives and Records Center, GSA, requiring the Bureau to dispose of these stored records.

2. PROMOTION OF THE SALE OF SAVINGS-TYPE SECURITIES.

This activity covers the operations of the U.S. Savings Bonds Division. The mission of the Division is to promote the sale of savings bonds to accomplish the two-fold purpose of encouraging individual Americans to save a portion of their money for later use and helping the United States Government to finance its debt in the least expensive and least inflationary way possible. The program also seeks the direct participation of American business, labor, banking, media and community groups in the promotion and sale of bonds, and provides the opportunity for all citizens to voluntarily participate in the financing of their government.

During fiscal year 1987 the Division will devote most of its resources to increase public awareness to build both over-the-counter and Payroll Savings Plan sales.

Summary of Program Increases by Activity (continued):

A goal of 51,950 initial promotional contacts and $6.0 billion in dollar sales has been set for fiscal year 1987.

A planned restructuring of the U.S. Savings Bonds Volunteer Committee will increase its effectiveness in promoting savings bonds sales.

The national advertising program will emphasize the features and benefits of savings bonds, continuing the strategy begun in 1985.

Bureau of the Public Debt
Impact of FY 1986 Gramm-Rudman-Hollings Budget Reduction

Description of Impact on Bureau Programs:

- The Federal Reserve Banks (FRBs) will not be fully reimbursed for the services which they perform as the fiscal agents of the Treasury Department. These services are performed for both the marketable and savings securities programs. In FY 1986 it is expected that the Banks will recover any unreimbursed costs by reducing by a like amount the profits which they return to the Treasury General fund.

- The fiscal agent relationship may be less effective if the Treasury Department does not directly pay for the services it receives. FRBs may assign a different priority to these services if they are not being directly paid to perform them.

Effect on Workload:

- Workloads for the Bureau, and specifically for FRBs as Treasury's fiscal agents, will continue to grow regardless of reductions in funding. It is anticipated that FRBs will continue to perform 100 percent of their requested workload in both marketable and savings securities.

- Timeliness of workload performance will depend upon FRBs assigning the same high priority to Treasury securities transactions regardless of the extent to which they are directly reimbursed by the Treasury Department.

Effect on Services:

- It is expected that FRBs will continue to provide all required marketable securities transaction services to commercial and individual investors, and also savings bonds processing services.

- Responsiveness of these services to the investing public will depend upon FRBs maintaining their current high priority.

Effect on Ability to Fulfill Bureau Mission:

- The Federal Reserve Banks play an integral role in the Bureau's mission. Continued service by the Banks in their fiscal agent capacity will depend upon their intention to continue their role under a different arrangement of reimbursement for the services, which in FY 1986 will include partial direct payment from the Bureau and partial self-reimbursement from their profits.

Bureau of the Public Debt
Executive Summary of Budget Estimates

Fiscal Year 1986

The Bureau's appropriation, as approved by the Congress in the Continuing Resolution (P.L. 99-190), totals $195,225,000 and 2,390 average positions. An adjustment to this amount is required as a result of P.L. 99-177. This adjustment reflects a total reduction of $8,395,000.

REQUIRED ADJUSTMENTS

(1) Reductions Pursuant to P.L. 99-177:

** For the Bureau of the Public Debt a total reduction of $7,654,000 will be applied proportionately to the savings and marketable securities activities. The balance of $741,000 is applied against the U.S. Savings Bonds Division.

Fiscal Year 1987

The request for administering the public debt is $198,814,000. This includes $180,656,000 for the Bureau of the Public Debt and $18,158,000 for the U.S. Savings Bonds Division. The appropriation request for FY 1987 represents a net increase of $11,984,000 over the $186,830,000 provided by the continuing resolution for FY 1986 as adjusted. The components of this increase are as follows:

-- Technological improvements (+$5,000,000)

o Replacement of the Bureau's mainframe computer (+$5,000,000)

During FY 1984 and FY 1985 several studies of the Bureau's future needs for data processing, office automation, and telecommunications were conducted. These studies indicated that the Bureau replace its obsolete Univac 1110 mainframe computer with a more modern system so that information processing systems can be improved. The new equipment will support the redesign of Bureau applications which will improve accounting controls, increase security, raise the level of service to the public, and provide more accurate and timely information for decision making.

-- Program Increases (+$5,230,000)

o Savings Bond workload increase (+$4,548,000)

Increasing savings bond workloads will necessitate an additional 8 FTE and $4,548,000 in the savings bond program in FY 1987. This increase has been minimized by productivity savings resulting from the use of Optical Character Recognition/Magnetic Ink Character Recognition (OCR/MICR) electronic processing equipment for processing savings bond retirements. Funding is required for personnel, transportation, postage, and printing costs, and the higher costs incurred by issuing and paying agents in managing the increased workload.

o Microfilming contract (+$182,000)

This funding requirement is requested for a Federal Records Center contract for microfilming approximately 5,000 numerical ledgers currently stored at the Washington National Records Center. This contract is necessary to comply with a notice from the National Archives and Records Center, GSA, requiring the Bureau to dispose of these stored records.

o Consumer and Media Information (+$500,000)

Provides resources to produce and distribute a variety of consumer and media information, such as, a series of 3-5 minute Informercials, target market advertising materials, and a teller training videotape. All of this information is designed to increase public awareness, increase the number of bonds sold, and involve and generate greater support from national opinion leaders.

-- Legislative Proposal (-$6,250,000)

o Beginning in FY 1987, Federal Reserve Banks (FRBs) providing fiscal agent services to the Treasury Department for the sale and transfer of marketable securities, will be required to recover the cost of some of those services by charging fees to both commerical and individual investors. These services include $6,250,000 in currently provided services for the Treasury Direct system and $13,500,000 in services for the Commercial Book-Entry System for which funding is currently not provided for reimbursement.

BUREAU OF THE PUBLIC DEBT
FEDERAL FUNDS

General and Special Funds:

ADMINISTERING THE PUBLIC DEBT

For necessary expenses connected with any public debt-issues of the United States, $198,814,000. (12 U.S.C. 31 U.S.C. 306, 321, 323, 324, 331, 3101-3129, 3302.)

Administering the Public Debt, Bureau of the Public (continued)

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1985 Activity	1986 Program in 1986 Budget	1986 Program in 1987 Estimate	1987 Estimate	Percent of Change
Processing and accounting for:		(in thousand of pieces)			
a. Savings securities:					
Sales	74,982	73,000	82,000	90,000	9.7%
Reissues and claims	4,917	7,200	7,200	7,200	0.0%
Total issues	79,999	80,200	90,000	97,200	8.0%
Redemptions	64,820	75,200	75,200	78,400	4.3%
Reissues, claims, and spoils	5,214	7,000	7,000	7,000	0.0%
Total retirements	70,034	82,200	82,200	85,400	3.9%
b. Marketable and special securities:					
1. Definitive securities:					
Original issues	854	—	704	—	-100.0%
Servicing:					
Securities issued	387	234	304	433	-14.0%
Securities retired	387	234	304	433	-14.0%
Redemptions	854	792	937	920	-1.8%
Total, marketable Treasury securities in definitive form	2,482	1,264	2,453	1,790	-32.2%
2. Investor accounts maintained at Treasury:		(in thousand of pieces)			
Accounts Opened:					
Book-Entry (Bills)	2,150	2,060	2150	2,150	0.0%
Book-Entry (Notes and Bonds)	—	285	121	485	300.0%
Registered (Notes and Bonds)	485	—	364	—	-100.0%
Accounts on hand (end of year):					
Book-Entry (Bills)	988	813	988	988	0.0%
Book-Entry (Notes and Bonds)	0	285	121	606	400.0%
Registered (Notes and Bonds)	1,210	588	1222	820	-32.9%

THE DEPARTMENT OF THE TREASURY

ADMINISTERING THE PUBLIC DEBT, BUREAU OF THE PUBLIC DEBT

EXPLANATION OF FISCAL YEAR 1987 BUDGET INCREASES AND DECREASES

GENERAL

The request for administering the public debt is $198,814,000. This includes $180,656,000 for the Bureau of the Public Debt and $18,158,000 for the U.S. Savings Bonds Division. The appropriation request for FY 1987 represents an increase of $11,984,000 over the $186,830,000 provided by the continuing resolution for FY 1986 as adjusted. The distribution of funds by major allocation is set out in the table on page PD-11.

PROGRAM CHANGES

1. Increases for Technological Improvements.....$5,000,000

The replacement of the Bureau's mainframe computer will require $5,000,000 in FY 1987. The Bureau's current computer, a Univac 1110 was installed in March 1976. Since that time, it has undergone several upgrades. However, it uses outdated memory and processor technologies which do not provide the flexibility needed to meet the Bureau's future data processing, telecommunication and management information needs.

To administer the public debt properly, there is a need to receive data from the Bureau's agents, process the data, and have information available in a timely manner. This will allow management to exercise appropriate control over public debt accounting and to make decisions based on current information. The declining acquisition and maintenance costs for the latest technology and increasing maintenance costs on the present system make replacement of the present system desirable and cost effective.

Consideration was given to upgrading the Univac, however, this option was determined to be impractical. This determination rests on the obsolescence of the equipment. The operating system will not be

supported after January 1, 1986, and by that time the processor technology will be 21 years old; the memory technology will be 11 years old.

Other alternatives were explored in the requirements analysis. These included use of commercial time sharing services and time sharing on another government computer. These alternatives were found to be more costly than the proposed program and they did not provide the needed flexibility to support future plans.

During FY 1984 and FY 1985 several studies of the Bureau's future needs for data processing, office automation, and telecommunications were conducted. These studies indicated that the Bureau should replace its obsolete Univac 1110 mainframe computer as soon as possible with a more modern system so that information processing systems can be improved. The new equipment will support the redesign of Bureau applications which will improve accounting controls, increase security, raise the level of service to the public, and provide more accurate and timely information for decision making.

Savings are expected over the system life cycle in the cost of operating the computer system. The new equipment will require less space and air conditioning, use less electricity, require a smaller staff to operate and cost less to maintain. Additional savings are expected from improved compatibility with the Federal Reserve. These savings will accrue from the use of existing systems such as the Federal Reserve Communications System and from the ability of the new equipment to run appropriate applications software developed and maintained by the Federal Reserve.

2. Other Program Increases.....$5,230,000

A. Savings Bond Workload Increase (+$4,548,000)

The increasing trend established over the last three years for savings bonds sales is expected to continue in FY 1987. Savings bond redemptions are also expected to increase. This is a result of EE savings bond sales increases and the redemption of the older E bonds,

first introduced in the 1940's. However, the redemption of the older bonds appears to be increasing as nationwide efforts are being made to advertise that many of these bonds have reached final maturity and are no longer accruing interest.

Twenty FTE work years will be saved in FY 1987 as a result of applying OCR/MICR to savings bond issues processing. However, increasing workloads will necessitate an additional 8 FTE and $4,548,000 in the savings bond program in 1987. This FTE increase has been minimized by increases in productivity savings resulting from the use of OCR/MICR equipment to process both savings bond issues and retirements. Funding is required for transportation, postage, and printing costs, and the higher costs incurred by issuing and paying agents in processing the increased workloads.

B. Microfilming Contract ($182,000)

Funding is required for a Federal Records Center contract for microfilming approximately 5,000 numerical ledgers currently stored at the Washington National Records Center. This contract is necessary to comply with a notice from the National Archives and Records Center (NARS), GSA, requiring the Bureau to dispose of these stored records.

C. Consumer and Media Information (+$500,000)

Funding is required to produce and distribute a variety of consumer and media information, such as, a series of 3-5 minute Informercials, target market advertising materials, and a teller training videotape. All of this information is designed to increase public awareness, increase the number of bonds sold, and involve and generate greater support from national opinion-leaders.

CHANGES TO CURRENT YEAR DATA

Savings Securities Activity:

The Bureau anticipates workload in FY 1986 to exceed projections in the President's budget. Sales are expected to total 82 million pieces compared with the 73 million pieces identified in the FY 1986 President's budget. Savings bond sales and redemptions are showing signs of growth, due to the impact of the variable rate bond. In FY 1986 the Bureau is projecting sales to increase 8.4 percent over the FY 1985 sales of 76.4 million pieces. Redemptions are also projected to increase to 75.2 million pieces, a 4.2 percent increase over FY 1985 levels.

Marketable and Special Securities Activity:

Registered workloads have increased dramatically over the last few years, while overall resource levels have remained relatively constant. The workload estimate for note and bond issues in FY 1986 is now projected to be 52 percent higher than the estimate in the President's budget. Until FY 1985 the Bureau managed to process increases in registered securities workloads without requiring additional resources because of the stabilized base of recurring investors in Treasury bills and by shifting limited resources from the savings bond program. Management improvements such as the registered issues on magnetic tape program, under which Federal Reserve Banks submit registration information on tape, and higher workforce productivity levels have also helped to enable the Bureau to handle the large volume increases and to minimize the Bureau's overall personnel requirements while workloads have risen. Additionally, the savings anticipated from the TREASURY DIRECT System will not materialize as planned because of the shift in its implementation date from October 1985 to July 1986.

A recently completed study determined that Federal Reserve Banks maintain book-entry accounts and transfer securities for the Treasury in their capacity as fiscal agents. Currently Treasury establishes the fees to be charged for commercial book-entry services and these fees are returned to the Treasury General Fund.

The current level of resources available to the Bureau for FY 1986 will not provide for full reimbursement of FRBs for commercial book-entry services and for part of the cost of services to individual investors. The Bureau will reach an agreement with the Federal Reserve Banks to assure that reimbursement, for direct and support

costs incurred by the Banks in providing both savings and marketable securities services to the Bureau, is limited to the amounts available in the FY 1986 budget. It is expected that additional amounts required by FRBs to pay for these services will be deducted by the FRBs from their profits before they are returned to the Treasury.

Reductions under P.L. 99-177

As a result of Public Law 99-177 the FY 1986 appropriation for administering the public debt has been reduced by a total of $8,395,000 in support of the Administration's deficit reduction goal. Of this amount, $7,654,000 will be absorbed proportionately in both the savings and marketable securities activities of the Bureau. The balance of $741,000 is applied against the U.S. Savings Bonds Division.

3. MAINTAINING FY 1986 PROGRAM LEVELS REDUCED BY P.L. 99-177

P.L. 99-177.....$8,395,000

This amount is required for maintaining FY 1986 program levels reduced by Public Law 99-177. Of this total amount, $741,000 is applied against the U.S. Savings Bonds Division.

4. MAINTAINING CURRENT LEVEL SUMMARY NARRATIVE

A. Net Cost of Within-grade Salary Increases.....$ 629,000

Based on past experience, it is estimated that $533,000 will be required for the Bureau for within-grade step increases in FY 1987. The amount requested for the U.S. Savings Bonds Division is $96,000.

B. Increased Employee Benefits.....$479,000

This amount is required for the increases in health benefits, social security and medicare costs, and the OASDI rate for new hires. Of the total amount, $37,000 is for the U.S. Savings Bonds Division.

C. Increased Travel and Transportation Costs.....$ 73,000

The Bureau requires $24,000 for increased travel and transportation costs associated with program and management reviews, Federal Reserve Bank visitations and common carrier freight services. The U.S. Savings Bonds Division requires $49,000 for increased travel and freight service costs.

D. Increased Printing Costs.....$517,000

This amount is required for the increased cost of printing services to the Bureau in FY 1987. Of the total printing requirement, $86,000 is for the U.S. Savings Bonds Division.

E. Increased Cost of FTS and Other Communications.....$228,000

Based on historical trends, this amount is required for increased costs associated with telephone services and the Federal Telecommunications System. Of the total amount, $54,000 is for the U.S. Savings Bonds Division.

F. Annualization of Current ADP Lease Costs.....$121,000

This item was calculated by identifying ADP equipment installed throughout the current year and annualizing the monthly rates to equal costs for a full fiscal year. A 4.2% increase was used where the full year cost was known for FY 1986.

G. Contractual Services.....$3,014,000

1. Federal Reserve Bank Reimbursements ($2,500,000)

This amount is an inflation adjustment to that portion of Federal Reserve Bank (FRB) fiscal agent services that will be directly reimbursed by the Bureau in FY 1986. While a portion of the FRB costs in FY 1987 will either be funded from the profits FRBs return to the Treasury or from fees charged to investors, this increase will allow the Bureau to reimburse FRBs for about 47 percent of their total fiscal agent costs.

2. Reimbursements to Other Government Agencies ($19,000)

This amount is required for increases in the Working Capital Fund.

3. Other Services ($265,000)

This amount includes $19,000 for increases in labor costs associated with repair of mechanical equipment; $138,000 for the annualization of current year ADP contracts; $16,000 for increases in training costs; and $92,000 for rent increases at the Bureau's Engraving and Printing Annex.

4. Support Services and Facilities ($230,000)

This request is required for the U.S. Savings Bonds Division to provide for the normal annual inflationary increases of 4.2 percent for support services and facilities consisting of equipment rental and purchases, postage, supplies, and services of other government agencies. Also included is the anticipated increases in contractual services of private contractors for the production, distribution, and warehousing of the advertising and promotional materials.

H. Increased Cost of Supplies .....$ 37,000

This increase is required for the cost of replenishing the Bureau's stockroom supplies and replacing worn, outdated ADP supplies. Of the total amount requested, $33,000 is for the Bureau. The balance of $4,000 is for the U.S. Savings Bonds Division.

I. Increased Equipment Procurement Cost.....$ 168,000

Of the total amount, $155,000 is required for the Bureau to replace worn and outdated ADP equipment, to replace the inadequate telephone and other communications equipment, and to replace the existing worn and less productive equipment with machinery that is more sophisticated and which provides a quicker response time. The balance of $13,000 is requested by the U.S. Savings Bonds Division.

Subtotal, Increases to maintain current levels.....$5,266,000

5. PROGRAM REDUCTIONS, NONRECURRING COSTS, AND PRODUCTIVITY SAVINGS

A. Program Reductions.....-$6,250,000

This reduction decreases Bureau payments for Federal Reserve Bank (FRB) fiscal agent services, specifically for the TREASURY DIRECT SYSTEM. Proposed legislation would required FRBs to recover the operating costs of this system through a fee charged to marketable securities investors.

B. Nonrecurring Costs.....-$3,440,000

1) The nonrecurring costs ($780,000) associated with Project NEW include expenses for the initial site preparation, transportation, supplies, training, and equipment.

2) The nonrecurring costs ($2,010,000) associated with OCR/MICR include: the initial cost of equipment, GSA space, structures, and contractual services.

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3) The U.S. Savings Bonds Division Nonrecurring Cost ($120,000)

These savings consist of one time non-recurring costs of $100,000 for ADP equipment and a $20,000 reduction in reimbursements made to the employees compensation fund.

4) The total amount of non-recurring cost associated with standard level user chargers is $530,000. The total amount is comprised of $510,000 for the Bureau and $20,000 for the U.S. Savings Bonds Division.

C. Productivity Savings and Management Improvements.....-$ 2,217,000

This reduction is comprised of decreases of: $254,000 for 20 work-years associated with the use of the OCR/MICR scanner for issue processing and $1,963,000 for 99 work-years associated with TREASURY DIRECT.

Subtotal, Program Reductions, Nonrecurring Costs, and Productivity Savings....$11,907,000

THE DEPARTMENT OF THE TREASURY
BUREAU OF THE PUBLIC DEBT
Administering the Public Debt

Standard Classification Schedule
(Direct Obligations Only)

	Appropriation 1985	Authorized Level 1986	Appropriation 1987	1987 Changes from 1986
TOTAL NUMBER OF PERMANENT POSITIONS	2,425	2,516	2,356	-160
AVERAGE PAID EMPLOYMENT	2,419	2,390	2,253	-137
Object Classification				
Personnel compensation:				
Permanent positions	$50,772	$50,790	$46,795	($3,995)
Positions other than permanent	1,208	1,320	2,842	$1,514
Other personnel compensation	2,778	3,097	1,607	($1,490)
Total personnel compensation	$54,758	$55,215	$51,244	($3,971)
Personnel benefits	7,322	6,747	6,655	($92)
Benefits for former personnel	23	110	110	$0
Travel and transportation of persons	1,033	1,156	1,206	$50
Transportation of things	2,001	2,181	1,405	($776)
Rent, communications & utilities:				
Standard level user charges	4,077	4,892	4,260	($632)
Other rent, communications & utilities	16,543	17,963	21,238	$3,275
Printing & reproduction	7,788	6,894	8,322	$1,428
Other services	100,615	85,014	93,949	$10,935
Supplies & materials	1,691	2,234	2,177	($57)
Equipment	1,342	3,959	6,248	$2,289
Land and structures	--	465	0	($465)
Insurance claims and indemnities	5	0	0	$0
Total Obligations	$197,398	$186,830	$198,814	$11,984
Unobligated balance	1,154	0	0	$0
Total Appropriation, Authorized Level & Budget Estimate	$198,752	$186,830	$198,814	$11,984

Administering the Public Debt

Distribution of Funds by Major Allocation

(dollars in thousands)

	1985 Actual		1986 Estimate		1987 Estimate	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Bureau of the Public Debt						
Operating expenses:						
Personnel compensation & benefits	$52,288	26.3%	$51,872	27.8%	$47,696	24.0%
Other related expenses	37,335	18.9%	46,981	25.1%	47,516	23.9%
Total operating expenses	$89,623	45.4%	$98,853	52.9%	$95,212	47.9%
Reimbursements:						
Fees paid to issuing agents	$18,486	9.3%	$20,000	10.7%	$21,690	10.9%
Fees paid to paying agents	21,282	10.8%	21,600	11.6%	26,656	13.4%
FRB Reimbursement	50,303	25.5%	29,909	16.0%	37,098	18.7%
Total reimbursements	$90,271	45.7%	$71,409	38.3%	$85,444	43.0%
Total, Bureau of the Public Debt	$179,894	91.0%	$170,342	91.2%	$180,656	90.9%
U.S. Savings Bonds Division:						
Personnel compensation & benefits	$10,015	5.1%	$10,200	5.5%	$10,313	5.2%
Other objects of expenditure	7,689	3.9%	6,288	3.4%	7,845	3.9%
Total, U.S. Savings Bonds Division	$17,704	9.0%	$16,488	8.8%	$18,158	9.1%
Total Obligations, appropriation or estimate	$197,598	100.0%	$186,830	100.0%	$198,814	100.0%

BUREAU OF THE PUBLIC DEBT

ADMINISTERING THE PUBLIC DEBT

Detail of Permanent Positions

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate
ES-5	1	1	1
ES-4	6	8	8
ES-3	3	1	1
ES-2	0	0	0
Subtotal	10	10	10
GS/GM-15	19	20	20
GS/GM-14	52	58	58
GS/GM-13	107	117	110
GS-12	243	338	338
GS-11	104	163	163
GS-10	16	15	15
GS-9	164	155	141
GS-8	64	62	62
GS-7	189	177	175
GS-6	238	244	225
GS-5	354	361	323
GS-4	312	309	274
GS-3	421	358	306
GS-2	119	97	97
GS-1	0	0	0
Subtotal	2,430	2,474	2,315
Ungraded	37	32	31
Total permanent positions	2,477	2,316	2,356
Unfilled positions, end of year	-52	0	0
Total permanent employment, end of year	2,425	2,316	2,356

BUREAU OF THE PUBLIC DEBT

ADMINISTERING THE PUBLIC DEBT

	1985 actual	1986 estimate	1987 estimate
Average ES salary	$67,999	$68,617	$68,617
Average GS grade	5.81	6.60	6.79
Average GS salary	$18,328	$19,250	$19,705
Average salary of ungraded positions	$15,433	$15,587	$15,743

THURSDAY, FEBRUARY 27, 1986.

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

WITNESSES

DAVID D. QUEEN ON BEHALF OF FRANCIS A. KEATING, II, ASSISTANT SECRETARY, ENFORCEMENT AND OPERATIONS

JILL E. KENT, DEPUTY ASSISTANT SECRETARY FOR DEPARTMENTAL FINANCE AND PLANNING

STEPHEN E. HIGGINS, DIRECTOR, BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

WILLIAM T. DRAKE, ASSOCIATE DIRECTOR (COMPLIANCE OPERATIONS)

PHILLIP C. McGUIRE, ASSOCIATE DIRECTOR (LAW ENFORCEMENT)

CHESTER C. BRYANT, COMPTROLLER

PAUL R. GENTILLE, FINANCIAL MANAGER

INTRODUCTION

Mr. ROYBAL. The Committee is in session this morning to hear from the Bureau of Alcohol, Tobacco and Firearms with regard to their budgetary request for 1987.

Will you please proceed in any manner that you may desire.

OPENING REMARKS

Mr. QUEEN. Good morning, Mr. Chairman.

I am Dave Queen from the Department of the Treasury. I am here at Secretary Keating's request. He asked me to extend to you his apologies for being unable to attend, but a last minute meeting involving Mr. Marcos' current situation kept him at the Treasury Department.

We have submitted, on behalf of the Assistant Secretary for Enforcement and Operations brief prepared remarks, and it is merely my purpose here today to introduce to you and have Mr. Higgins, Director of the Bureau of Alcohol, Tobacco and Firearms, testify directly on the bureau's FY 1987 appropriation request

Mr. ROYBAL. Well, Mr. Queen the Committee would like to welcome you to the meeting this morning.

Mr. QUEEN. Thanks very much.

Mr. ROYBAL. I am sure that you are an expert in your field and we look forward to working with you.

Mr. QUEEN. Thanks very much.

Mr. ROYBAL. Will you please proceed, Mr. Higgins?

Mr. HIGGINS. Thank you, Mr. Chairman. First let me thank you specifically and other Members of the Committee for your support of the bill to rename our headquarters building after Ariel Rios. We had the dedication and it was a very fine event. We appreciate your being there.

Mr. ROYBAL. Thank you.

Mr. HIGGINS. And we are very grateful for your support.

I am pleased to appear before you in support of the FY 1987 budget request for the Bureau of Alcohol, Tobacco and Firearms.

Accompanying me are my colleagues, Mr. William Drake, who is the Associate Director for Compliance Operations; Mr. Phil McGuire, who is the Associate Director for Law Enforcement; Mr. Chester Bryant, who is our Comptroller, and Mr. Paul Gentille, our Financial Manager.

Since this is Mr. Bryant's first appearance before the Subcommittee, I would like to submit his biography for the record and then, with your permission, Mr. Chairman, I would also like to submit for the record a detailed general statement and then make some brief introductory remarks.

Mr. ROYBAL. All right.

The full text of this statement will appear in the record at this point and you may proceed and summarize.

[The prepared statement of Mr. Higgins and Mr. Bryant's biography follow:]

DEPARTMENT OF THE TREASURY

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

Statement of Stephen E. Higgins, Director, for Presentation to the Subcommittee of the Committee on Appropriations

GENERAL STATEMENT

Mr. Chairman and Members of the Subcommittee.

It is a privilege to appear before you in support of the FY 1987 budget request for the Bureau of Alcohol, Tobacco and Firearms. Accompanying me are my colleagues Mr. William Drake, Associate Director, Compliance Operations; Mr. Phillip McGuire, Associate Director, Law Enforcement; Mr. Chester Bryant, Comptroller; and Mr. Paul Gentille, Financial Manager.

Our FY 1987 budget request is $178,463,000 and 2,850 staffyears, which represents a net increase of $11,742,000 and a decrease of 91 staffyears compared to the proposed authorized level for FY 1986. This request includes program reductions of $4,650,000 and 91 staffyears, offset by maintain current level increases of $8,901,000, and $7,491,000 for the restoration of the FY 1986 Gramm-Rudman-Hollings (G-R-H) reductions.

Due to the G-R-H legislation, the proposed authorized level for FY 1986 includes a reduction of 4.3 percent or $7,491,000, from the Continuing Resolution appropriation of $174,212,000 and 2,941 staffyears. While the G-R-H reductions will have a detrimental impact on all Bureau programs during FY 1986, we have attempted to minimize this impact by maintaining an adequate staffing level, focusing the reductions in operational areas rather than personnel. A detailed discussion of the impact of the G-R-H cuts is contained in the FY 1987 budget justification. The total proposed authorized level for FY 1986 is $166,721,000 and 2,941 staffyears.

I would like to take this opportunity to report to you on several management initiatives.

MANAGEMENT EFFICIENCIES

Administrative

The Bureau's efforts to realize further efficiencies in administrative processes continued at a vigorous pace during FY 1985. Our most noteworthy achievement in this area has been the centralization of all administrative support. This action was recommended by an ATF interfunctional task force in November 1984, and was proposed to the Department in January 1985. Our five regional administrative offices were officially closed on October 1, 1985.

While administrative centralization eliminated management and supervisory positions in the regions, some of the nonsupervisory staffyears were reassigned to Headquarters to accommodate the centralized workload. The remainder were used to provide an administrative assistant for each principal field office, comparable to the Secret Service and other administratively centralized agencies. Thus far, we have experienced no significant problems attributable to centralization. The administrative assistants are providing effective day-to-day liaison between Headquarters and the field, and our field managers now enjoy direct access to individual program specialists at Headquarters. I am also happy to report that these changes took place without adversely affecting any of our displaced regional administrative employees. Advance notification allowed most individuals to locate other positions, either within or outside the agency, before the October 1 implementation date.

Concurrently with this major organizational change, the Bureau has continued to rely on services from the private sector and other governmental agencies to minimize in-house staffing needs. In May 1985, our forms and

publications distribution operations were assumed by an organization for the handicapped under the auspices of the Wagner-Jarvis-O'Day Act. Throughout the entire year, we have used private sources as well as the Treasury and Justice Departments to assist us in meeting day-to-day data processing requirements. In addition, major hardware and software contracts were recently awarded to outside firms in conjunction with ATF's Systems Modernization Plan; without this support, our internal data processing staff would have to be doubled.

We are continuing to explore further opportunities for productivity increases utilized under the A-76 program. Comprehensive reviews of our laboratory, ADP and communications activities were initiated in FY 1985, and will be completed by the end of FY 1986. These review areas, as a whole, account for approximately 82 staffyears. It is not anticipated that any further staffyear reductions will result from these studies, since most functions under review are closely tied to our law enforcement and tax collection activities. In addition, we believe that the Bureau's expertise in many areas of forensic analysis can not be easily duplicated by commercial sources. However, we do anticipate the potential privatization of some services, such as ADP "batch processing" tasks.

Finally, a third major emphasis in our management improvement efforts has been in the implementation of the Federal Managers' Financial Integrity Act (FMFIA) of 1982, under the guidance of OMB Circular A-123. Through the process of regularly scheduled vulnerability assessments and supplementary internal control reviews, we have identified and corrected a number of internal control deficiencies. We continue to refine our FMFIA evaluation mechanism as we gain more experience with the intent of the Act, and have

also included a session on the FMFIA as a permanent part of our in-house training course for first-line supervisors.

Compliance Operations

Compliance Operations is making management improvements by automating high-volume operations, consolidating functions that can be run more efficiently at one location, identifying and acting on changes in industry and population trends, and providing equipment and training to its employees so that they can work more effectively.

Each year the number of licensees and permittees regulated by ATF increases. For example, in 1980 the number of firearms licensees was 179,000; by 1985, that population had grown to 249,000, and we expect that number to increase to 280,000 by the end of 1986. To handle the increasing number of firearms licensees with reduced staffing levels, we are evaluating the feasibility of consolidating our seven regional firearms and explosives functions into one highly automated location. We believe that consolidation will enable us to more effectively respond to inquiries from law enforcement officials, and act upon license applications more efficiently.

Another improvement is the "lockbox" for firearms and explosives application fees which ATF implemented this past summer. No problems have been encountered since it has been in place. Not only are we saving over $100,000 a year in processing costs, but we are also able to issue firearms and explosives licenses more expeditiously.

ATF and the U.S. Customs Service have entered into an agreement by which ATF auditors and inspectors will perform audits at customs bonded warehouses which are co-located with facilities regulated by ATF. The overall efficiency of the Department will be improved and the agreement will also benefit industry because its representatives and operations will be disrupted

less frequently. In a somewhat related matter, we are exploring with IRS the possibility of ATF personnel performing excise tax audits of firearms manufacturers, who are licensed and inspected by ATF. This too could result in a greater efficiency both to the Treasury Department and to the taxpayers.

ATF processes thousands of requests each year for alcoholic beverage label approvals. By statute, we also maintain detailed records concerning fully automatic and certain other weapons covered under the National Firearms Act. In these two areas, we have automated our files so that the records are more efficiently maintained and information more accessible. The automation of our label approval files has been particularly advantageous to industry because we are able to act on their label approval requests at least twice as quickly as in the past and because industry representatives and members of the public now have speedy and accurate access to our label approval files.

ATF has upgraded the skills of its employees by providing them with modern equipment and advanced training. We have completed the process of obtaining office computers for all regional and area offices, and this year, we have started to obtain portable computers which field employees can utilize at on-site examinations. The Bureau continues to provide advanced training in several areas for its employees, for example, automated data processing (ADP), Cost Accounting, interview techniques, and management courses.

LEGISLATIVE CHANGES

Two years ago, Congress enacted the Deficit Reduction Act of 1984. One of the provisions of that law was an increase in the excise tax rate for distilled spirits from $10.50 to $12.50 per proof gallon, effective October 1, 1985. Along with that increase, a one-time floor stocks tax of $2.00 per proof gallon was levied on all distilled spirits in inventory at every commercial outlet on that date.

Administering the Public Debt, U. S. Savings Bonds Division

AVERAGE GRADES AND SALARIES

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Average ES salary	68,700	68,700	68,700
Average GS grade	10.04	9.87	9.87
Average GS salary	32,233	32,490	32,750

Administering the Public Debt, U. S. Savings Bonds Division

CONSULTING AND RELATED SERVICES
(in thousands of dollars)

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Consulting Services	--	--	--
Management and Professional Services	--	--	--
Special Studies and Analyses	91	--	--
Management and Support Services for Research and Development	--	--	--
Total Consulting and Related Services	91	--	--

THE DEPARTMENT OF THE TREASURY

Administering the Public Debt, U.S. Savings Bonds Division

CONSULTING AND RELATED SERVICES

In FY 1985, the Division contracted with Booz Allen and Hamilton, Inc. to conduct a cost benefit analysis of the Savings Bonds Program. The purpose was to study the costs and benefits of the savings bonds program, its impact on the Federal budget and of proposed changes to the program in terms of their impacts on Treasury policy objectives. The study also evaluated program enhancements and the merits of specific types of debt instruments by incorporating a comparison of savings bonds to other Federal debt instruments.

The Division's responsibility for marketing savings bonds requires constant seeking to introduce product and program improvements that will augment the annual sales volume and increase the total program benefit. This contract provided a framework for analyzying the relative costs and benefits of introducing new products, changes in marketing, and other services of the Savings Bonds Program.

To ensure that all distilled spirits floor stocks taxes are paid, the Bureau conducted an extensive information campaign combined with a highly visible, concentrated examination program. All members of the distilled spirits industry from producer to retail outlet were informed of the excise tax increase and related floor stocks tax. ATF representatives attended numerous industry meetings to inform the industry about the tax increase and floor stocks tax process.

In addition to these efforts, ATF inspectors conducted over 5,000 inventory verifications in October and November 1985 to ensure that industry members would pay the proper amount of floor stocks taxes the following April. These inventory verifications have resulted in the collection of approximately $917,000 in additional taxes. In-depth examinations will be conducted after April 1986, once the tax returns are filed, and after we have identified those taxpayers where noncompliance would cause the greatest revenue loss.

In another development, both houses of Congress are considering legislation which would establish excise taxes on snuff and chewing tobacco. Although the final version of these bills is not known, we are making preparations to implement the necessary changes in regulations and internal procedures should this legislation be enacted into law.

LAW ENFORCEMENT

The Bureau has realized important achievements in the fight against violent crime as a result of the emphasis of our law enforcement programs. Our firearms, explosives, and arson programs in particular have been successful in combatting crime, especially in the areas of bombings, narcotics trafficking, arson-for-profit, terrorism, and other crimes of violence.

In FY 1985, the firearms program focused on apprehending previously convicted felons who, having gained their freedom, continue to perpetrate their particular brand of violence by illegally using firearms. This classification of criminal is singularly responsible for more violent crimes than any other group; their menacing presence affects the way our citizens live and our businesses operate. We will continue to identify them, vigorously investigate their crimes, and perfect criminal cases for prosecution whenever possible.

We are aware of the recent alarming increase in the number of both domestic and international terrorist/hate groups in our nation. As a result, ATF special agents conducted investigations concerning the violent misuse of firearms and explosives by criminals whose terrorist and violently discriminating activities occurred in this country. Identification and exposure of these people and their associates has continued to heighten our nation's awareness of their violent acts.

Additionally, unscrupulous property owners who hire arsonists to burn their buildings for insurance monies, and never consider the lives of firefighters, police officers, or medical personnel who die or are injured while performing their duties, have been targeted for intense investigation. These criminals' wanton disregard for those responsible for protecting the property and lives of our citizens is so repugnant that enhanced penalties have been incorporated into Federal arson statutes and are applicable in those instances where death or injury occurs as a result of these fires. ATF's enforcement effort under these statutes will be paramount.

Furthermore, ATF is committed to exposing those corrupt profiteers who knowingly and willfully traffic in firearms, ammunition, and explosives in furtherance of all types of criminal activities.

Explosives Program

The vicious and indiscriminate nature of criminal bombings evokes outrage and fear in the citizens of this nation. The visible public reaction to the abortion clinic bombings during 1985 is graphic testimony.

Explosives investigations continue to be our number one priority. During FY 1985 there were 1,063 reported bombings or attempted bombings which resulted in 30 deaths, 154 injuries, and in excess of $9.7 million in property damage. Additionally, over 15 tons of explosives were illegally diverted in 212 reported thefts. This figure is significant since most stolen explosives are never recovered. Due to the availability of stolen explosives in the underground marketplace and ready access to bomb-making technology afforded by numerous publications in circulation, the potential for the criminal misuse of explosives must be assessed as very high.

ATF's posture in addressing its explosives enforcement mission is multifaceted and dynamic in nature. This can be best illustrated by a brief discussion of our explosives program, which is designed to reduce the number of criminal bombings through active prosecution, assisting State and local agencies in their efforts to interdict the illegal use of explosives, and removing the hazards to the public posed by improper storage or use of explosives.

Traditional Enforcement Activities

In FY 1985 ATF recommended a total of 381 defendants for prosecution for violations of Federal explosives laws. The following summarized explosive cases, limited in number as necessitated by the nature of this presentation, are only examples of the significant results achieved by ATF in the traditional explosives enforcement area.

Between January 1984 and January 1985, eight abortion facilities, the headquarters for the National Abortion Federation and an American Civil

Liberties Union Office located in the area encompassed by Washington, D.C. and the States of Delaware, Virginia, and Maryland suffered bombing and arson damage estimated in excess of $840,000. On January 19, 1985, following an intense ATF investigation conducted in cooperation with affected State and local agencies, three men were arrested for perpetration of all those criminal acts. Subsequently, two defendants pled guilty and received sentences of 15 years and 2 years imprisonment respectively. The third man was tried, found guilty, and sentenced to 10 years. In addition, restitution totalling $97,000 was ordered of two of the defendants.

During the early morning hours of Christmas Day, 1984, bombs went off at three separate abortion facilities all located within two miles of each other in Pensacola, Florida. These bombings caused a combined loss estimated in excess of $425,000. An ATF National Response Team was activated and conducted the searches of the bomb scenes and initial investigation. Six days later ATF initiated arrests of two men and two women for these bombings as well as the bombing of another Pensacola abortion facility which had occurred in June 1984. Subsequently, the two men were convicted of the three Christmas day bombings, sentenced to serve 6 concurrent 10-year terms in prison with 5 years of supervised probation upon release, and ordered to make combined restitution in the amount of $353,000. The women were found guilty of aiding and abetting the bombings and were sentenced to serve 5 years probation each.

In May and June 1984, a series of 24 related bombing incidents were perpetrated in the States of Wisconsin, Illinois, and Minnesota. Explosive devices baited with dollar bills and notes were placed in parks and recreational areas to lure victims. The bombs, claimed as having been set by the North Central Gay Strike Force Against Public and Police Oppression, caused injuries to five individuals. An eight-State task force, incorporating all affected State and local agencies, was organized and coordinated by ATF during this investigation. On June 8, 1984, an individual was injured when a bomb exploded in his vehicle in Mason City, Iowa. ATF agents, who were in the area having just distributed information regarding the serial bombings, responded to the bomb scene search and actively participated in the investigation. Information developed pointed to the injured person as being involved in the 24 bombings. Subsequently, this individual admitted that he alone constituted the North Central Gay Strike Force Against Public and Police Oppression and was solely responsible for all the bombings. Following a series of lengthy psychiatric examinations, this individual is presently awaiting trial.

On July 9, 1985, in Naples, Florida, two members of a wealthy family were killed and a third seriously injured when two bombs exploded inside the vehicle they were driving. ATF immediately responded to the scene. All evidence collected at the scene and subsequently obtained was submitted to ATF laboratory facilities for analysis. Investigation by ATF in conjunction with the Collier County Sheriff's Office revealed that a brother/son to the deceased and injured individuals had purchased items similar to those used in the construction of the bombs utilized. This individual was in line to inherit $15 million upon the death of the

three victims of the car bombing. ATF developed and analyzed evidence leading to the arrest on August 22, 1985, of this individual on State charges of murder and attempted murder. Adjudication of this case is still pending.

ATF's timely, effective, and professional reaction to explosives investigations is the result of in-depth training of its agents and innovative programs established to support and enhance the field agents' capabilities. Among these programs are:

The Explosives Incident System (EXIS): EXIS is the recipient of all pertinent information from every ATF bombing investigation and is capable of researching bombings as to trends, patterns, targets, componentry, and modus operandi. All information available through EXIS is routinely forwarded to the U.S. Secret Service, Federal Bureau of Investigations' Domestic Security and Terrorism Section and U.S. Military investigative agencies.

National Response Teams (NRT): Four NRT's are strategically located throughout the country and are capable of mobilizing a team of specialized investigators to the site of a major explosives/arson incident within 24 hours to conduct searches and follow-up investigations.

Advanced training of ATF Special Agents: Yearly, a number of ATF special agents are selected and undergo training in post-blast investigation, explosives handling and destruction, or training as explosives instructors.

State/Local Training

As part of ATF's commitment to assistance to State and local law enforcement, the Advanced Explosives Investigative Techniques (AEITC) course of instruction presented at Glynco, Georgia, was initiated in 1982. To date, 424 State and local officers have attended this program. Originally developed in conjunction with the International Association of Bomb Technicians and Investigators (IABTI), the course is considered "state-of-the-art" in post-blast investigation and elicits an enviable reputation among all those who have attended.

Public Safety

ATF approaches the threat posed by illegal and/or unsafe use of explosives on two fronts: interdiction/disruption of illegal and/or unsafe practices and education of the public in recognition of and self-protection against hazards.

During FY 1985, ATF was actively involved in the investigation of illegal fireworks manufacturers, transporters, and distributors (M-80 Project). Explosives used in M-80 and M-100 type devices are highly sensitive. When considered with the quantities of powder used in the manufacturing process and the usual lack of quality control and safety precautions, the potential for disaster is enormous. Presently, plans are underway to analyze all data available, by ATF district, to more effectively interdict illegal fireworks manufacturers, distributors, and the illegal sources of raw materials used in the manufacture of these devices.

During FY 1985, efforts continued through the Office of Congressional and Media Affairs, local law enforcement authorities, and the media to increase public awareness of the threat posed by illegal fireworks and to develop an appreciation of their danger potential. In addition, the 1985 abortion clinic bombings along with other criminal bombings, both domestic and international, have heightened the public awareness of bomb threats. In recognition of the need of the general public for practical information on how to defend against and react to bombings and bomb threats, ATF has entered into a program to update and offer training to the private sector. Plans initiated in 1985 are currently being implemented through awareness training presentations and the preparation of publications on the topic.

1985 Initiatives

During FY 1985, to address the increased threat posed by terrorism, ATF undertook two new initiatives.

I-EXIS: During 1985, ATF studied the feasibility and took the initial steps in implementation of an international explosives incident data base. ATF currently has the EXIS program, discussed previously, where information from all reported domestic explosives incidents are entered into a data base. However, the U.S. Government has no program which would permit timely comparison of international incidents or international incidents with domestic incidents. I-EXIS will be a separate program that will contain information on foreign explosives incidents and have the capability to compare those incidents not only between each other but also with domestic incidents.

International Training: ATF is a contributing member to the Government-wide Anti-Terrorism Assistance Program (ATAP). This program, administered by the Office of Counter-Terrorism and Emergency Planning, Department of State, was created in response to the alarming increase in international terrorist activity. The objective of the program is to develop specialized expertise in foreign law enforcement officials through training and related assistance. In FY 1985, ATF trained 60 law enforcement personnel, representing the participating foreign governments of Costa Rica, Colombia, Egypt, and Honduras in four separate schools. In 1986, two other schools instructing 32 additional foreign law enforcement officials have been scheduled.

Arson Enforcement

While arson is basically a State and local enforcement responsibility, the national magnitude of the problem has exceeded the capabilities of any one agency to effectively respond to the full range of arson crimes occurring within its jurisdictional area. ATF, in promoting the Federal role in this critical program, has spearheaded the drive to coordinate enforcement efforts among Federal, State and local sectors. However, the overall effort by ATF is selective in that we actively investigate only a very small percentage of the total arsons committed throughout the country. We are confident that the direction of our investigative activity, along with our assistance to State and local authorities, is compatible with the overall Federal role required to combat the crime of arson.

During FY 1985, ATF recommended 180 cases and 410 defendants for prosecution, which represents a 35 percent increase in cases and defendants from the previous fiscal year. ATF resources are directed toward complex arson-for-profit cases involving industrial or commercial property. Our arson enforcement efforts are also focused on organized crime, arson-for-profit rings, white collar and violent criminals.

In addition to the apprehension and prosecution of violators, ATF utilizes a procedure to capture the "insurance dollars saved" through ATF's arson investigative efforts. During FY 1985, $77.3 million was "saved" in the sense that in the absence of effective law enforcement efforts, the insurance industry could potentially have been required to pay out $77.3 million more in arson-related claims, thus creating a greater burden upon the premium-paying general public and the Nation's economy as a whole. It should also be noted that many of these respective dollar amounts will increase as the ongoing cases are completed. These savings constituted an 80 percent increase over the previous year's figures.

In FY 1985, ATF continued its assistance to State and local authorities through the services of four National Response Teams, located in the Midwest, Northeast, Southeast, and Western regions of the United States. These teams, in their short 6-year history, have been activated in response to 130 incidents, involving 94 deaths, 381 injuries and property damage in excess of $406 million. These teams have a phenomenal 98 percent rate of determination as to the cause of the incident.

The arson task force concept continues to be one of our most successful strategies in combatting this most difficult crime. In 14 cities, Seattle, San Francisco, Los Angeles, Houston, Chicago, Boston, New York, Philadelphia, Atlanta, Detroit, Newark, Dallas, St. Paul and St. Louis, the concept is fully

operational utilizing the talent and resources of Federal, State and local agencies. Additionally, the first of two new task force groups will be initiated in FY 1986. Another city will be selected and added by the end of the fiscal year, bringing the total arson task forces to 16.

In October 1982, ATF initiated a 2-week State and local training course in advanced arson-for-profit investigations. This training, unavailable anywhere else, deals with in-depth investigation into arson-for-profit cases beyond the cause and origin determination. To date, over 400 State and local police and fire service personnel have attended this highly acclaimed course. This training is in such demand that it has become a permanent part of ATF's arson enforcement program.

In response to repeated requests from State and local arson investigators, ATF initiated a series of seminars directed toward educating prosecutors at both the State and Federal levels in the crime of arson. These seminars acquaint the prosecutors with cause and origin determination of a fire and legal considerations, as well as successful prosecution and courtroom techniques. The following cases are examples of significant results achieved in the Bureau's arson enforcement area:

ALBUQUERQUE, NM: In April 1983, the Western NRT responded to a million-dollar arson which destroyed Ned's El Portal Restaurant and Lounge. ATF identified the arsonist, who implicated the restaurant owners (a prominent local family) in the arson-for-profit scheme. During the course of the investigation, ATF developed information that one of the family members was involved in an Albuquerque cocaine organization. DEA and ATF conducted a joint investigation into the subject's criminal activities. In April 1985, four family members were indicted on Federal arson charges, stemming from the burning of their restaurant and the collection of over $500,000 in false insurance claims. On June 10, 1985, two family members and a third individual entered pleas of guilty to Federal narcotics charges. Two of them were later sentenced to serve respective sentences of 10 and 12 years. The third was given 3 years probation. As part of a plea agreement, the U.S. Attorney dismissed the arson charges against family members in exchange for their pleas to the drug charges and confessions in open court to the arson.

CHICAGO, IL: On April 18, 1985, a former firefighter appeared in U.S. District Court and pled guilty to one count of conspiracy and one count of possession of a destructive device. Per a plea agreement with the U.S. Attorney's Office, the defendant will serve as a Government witness during the trial of his co-conspirator, also a former fireman. The conviction was the result of a joint investigation by ATF and the Chicago Police Bomb and Arson Squad of a conspiracy to burn vacant properties for profit. The subjects resigned from the Chicago Fire Department following their arrest in January 1985.

MONTGOMERY, AL: On February 20, 1985, three individuals entered guilty pleas in Federal and State court to civil rights and arson violations. The principal defendant, a KKK organizer, was sentenced to 27 years' imprisonment; the two remaining defendants (also KKK associates) each received 7 1/2-year terms. On the same day, two additional KKK associates pled guilty in State court to burglary and theft of explosives. Both defendants received terms of 2 to 2 1/2 years. The sentencing of the five defendants culminated a 19-month investigation by a task force comprised of ATF, other Federal agencies, and State and local authorities. The investigation was initiated following the July 1983 arson of the Southern Poverty Law Center, a KKK watch organization.

MADISON, WI: On October 23, 1985, in State court the national president of the Ghost Riders Motorcycle Gang and two gang members were found guilty of murder and arson charges. All three subjects have been sentenced to life imprisonment. The defendants were convicted for their roles in the March 1983 arson of a gang-operated tavern and the murder of a female associate who they suspected of being an informant. At the direction of the president, two gang members drugged the woman and left her in the tavern to die in the ensuing fire. The convictions were the result of an investigation conducted by the ATF/Presidential Narcotics Task Force. The defendants are 3 of 38 gang members and associates recommended for prosecution by the task force.

LAWRENCE COUNTY, IN: On August 16, 1985, two ATF defendants were sentenced in the Superior Court of Lawrence County. One defendant received a total of 40 years' incarceration and was ordered to pay $21,500 in restitution. The second defendant was sentenced to 6 years' imprisonment, 5 years suspended. One of the defendants, a three-time convicted felon, was considered a major criminal in the South Central Indiana area. The convictions were the result of an ATF investigation into a series of arson-for-profit fires of commercial and residential properties. The Lawrence County Prosecutor praised ATF for its professionalism and expertise while conducting the first successful arson prosecution in the judicial district.

PORTLAND, OREGON: On October 4, 1985, a defendant was found guilty by jury trial in Oregon State Court of the July 1983 arson/bombing of the Rajneesh Hotel. The subject could receive up to 20 years' imprisonment. The conviction concluded an intensive, 14-month investigation involving ATF's Seattle, Portland, and Denver offices, as well as the Seattle, Englewood, Colorado, and Portland Police Departments. The defendant was identified as an active member of a

radical East Indian Moslem splinter group known as Fugra whose membership has been linked to religious assassinations, bombings, arsons, and violent anti-Hindu activities in the United States. As a result of the arrest and ATF's extensive background information regarding the Fugra group, two State search warrants were executed on the Fugra commune in Englewood, Colorado, where the subject lived with four other alleged Fugra members. The search warrants resulted in the collection of evidence and documents which proved critical to the State's prosecution. ATF has perfected a criminal case against the defendant's wife for conspiracy to aid and abet the defendant's unlawful flight to avoid prosecution. The case has been accepted by the U.S. Attorney.

Firearms Enforcement Program

ATF's firearms enforcement program focuses on those crimes, criminals, or criminal organizations which pose the greatest threat to American society based on a consensus opinion of the criminal justice community. Accordingly, our firearms program is prioritized and continually revamped to ensure that we are addressing the most serious firearms threats.

Our firearms program can be categorized into five major areas. The first is classified as the Dangerous and Special Offenders/Organizations, focusing on those individuals or groups identified as habitually active and violent criminals. Greater emphasis has been placed on organized crime figures, members of violent extremist groups, outlaw motorcycle gang members, and major narcotics dealers. The following are but a few of our accomplishments in the area:

On December 5, 1985, a major organized crime figure was convicted in Chicago of Federal drug charges, relating to his possession and sale of cocaine to an undercover ATF special agent. The defendant had previously been identified by a U.S. Senate subcommittee as a high-ranking soldier in a Chicago La Cosa Nostra family. The Drug Enforcement Administration (DEA) had also identified him as a Class I trafficker. At the time of his conviction he was on Federal parole for dealing in cocaine and had served 12 years in prison as the result of armed robbery and narcotics convictions. ATF began this investigation because of the organized crime figure's alleged firearms violations. As a result of that investigation, he is also facing an additional Federal conspiracy trial with 5 other defendants on Federal explosives and firearms charges. Those charges resulted from his alleged participation in the planning of an armed robbery that included the delivery of guns and bombs to the ATF agent.

On August 12, 1985, in Little Rock, Arkansas, the leader of the Covenant, the Sword, the Arm of the Lord (CSA), a white supremacist organization, pled guilty to a Federal firearms conspiracy violation. Five CSA members also pled guilty to the same charge. In addition, the CSA head pled guilty to the possession of an unregistered machine gun. These convictions resulted from a 3-year investigation by ATF of alleged firearms and explosives violations by the CSA. This inquiry culminated in the execution of Federal arrest and search warrants at the CSA compound in Marion County, Arkansas, in April 1985. This raid resulted in several arrests and the seizure of a large quantity of firearms that included 30 machine guns, 9 silencers, 35 destructive devices, and 3 mines.

On January 24, 1985, two members and the leader of a regional Posse Comitatus group were convicted in St. Paul of Federal firearms violations, assault on a Federal officer and conspiracy to assault Federal officers. This joint investigation stemmed from alleged threats by this Posse Comitatus group to bomb three Federal buildings and kill Federal officers. In October 1984, ATF agents executed 4 Federal search warrants and seized 50 firearms, including 6 unregistered machine guns, 4 unregistered hand grenades, 150 pounds of smokeless powder, and a large quantity of blasting caps, high explosives and ammunition. All three members opposed the Federal income tax laws and advocated the murder of any Federal officer who enforced these laws. The defendants rejected all Federal firearms laws and encouraged the unregistered possession of machine guns and bombs. One defense witness stated emphatically that a citizen should arm himself with any and all weapons short of nuclear bombs.

Since the enactment of the Comprehensive Crime Control (CCC) Act, results of significant sentencing of these habitual and violent criminals have started to generate increased interest among prosecutors and law enforcement in general. The enhanced penalties for armed career criminals convicted under this legislation have given law enforcement a much needed tool to rid society of persistent, habitual, and violent offenders. Notable examples of sentences imposed under this statute follow:

On November 1, 1985, a DEA class I violator and large-scale narcotics distributor from St. Louis, Missouri, received a combined sentence of 22 years without parole, 5 years special parole, and $20,000 in fines. The sentence resulted from his conviction for distribution of narcotics and receipt of firearms.

On June 13, 1985, in St. Louis, a narcotics violator and convicted felon who was found to be in possession of a firearm and P.C.P., was tried and sentenced under the CCC Act. The subject received two consecutive, 15-year sentences.

On January 1, 1986, in Dallas, Texas, a Federal judge sentenced a multiconvicted felon having an extensive history of armed robbery and burglary to 25 years without parole for possession of a firearm and other related charges.

The use of this statute is increasing rapidly as other law enforcement agencies become aware of the severe penalties which can be imposed on convicted felons possessing firearms.

The second major category of the firearms program concerns criminal trafficking of all types of firearms. This area can be summarized as the identification, investigation, and apprehension of individuals or groups who are substantial sources of firearms for the criminal element, and who demonstrate a flagrant disregard of the law. Included are those who illegally deal in stolen firearms and are involved with burglary and fencing operations and those who illegally traffic, manufacture, or convert machine guns and silencers.

During FY 1985, ATF seized 2,042 machine guns, of which 1,609 (79 percent) were conversions. We consider the illicit conversion of legitimate firearms to machine guns as a major law enforcement problem. The following are some of our accomplishments in this area:

In June 1985, two corporations and their principal officers were indicted for firearms conspiracy charges in Atlanta, Georgia. The defendants are alleged to have conspired to illegally manufacture and sell component parts of machine guns, silencers, and other controlled firearms that could be assembled into illegal firearms. During this investigation, ATF seized business documents from the defendants. After analyzing the records, ATF developed investigative leads that resulted in the execution of 112 Federal search warrants nationwide and the recommendation of 102 defendants for prosecution. As a result of all the investigations, ATF seized 382 machine guns and 335 silencers.

On March 8, 1985, Chicago ATF agents executed a Federal search warrant at an individually owned tool and die machine shop in Elk Grove Village, Illinois. The ATF agents seized 18 unregistered machine guns, 7 unregistered silencers, and 44 illegally manufactured conventional firearms.

On September 13, 1985, a Federal firearms licensee (FFL) was sentenced in a West Palm Beach, Florida, Federal court for the illegal possession of

machine guns and silencers. The firearms dealer, who is also an air traffic controller, still faces State charges of cocaine possession and distribution. The State and Federal charges arose from a May 13, 1985, Federal search warrant executed by ATF agents and the Broward County Sheriff's Office at the dealer's Fort Lauderdale residence. During the search, law enforcement officials discovered and seized 2 unregistered silencers, 2 unregistered machine guns, 1 weapon made from a rifle, numerous machine gun and silencer parts, and 1.2 pounds of cocaine.

During FY 1985 we also identified and apprehended three major sources of weapons sold to members of "The Order," a militant white supremacist group. The first source was a licensee, who was arrested. A search of his residence turned up illegal conversion kits for machine guns. The second source, another licensee, sold $12,000 worth of firearms, ammunition, silencer parts and machine gun parts to the Order member who subsequently was arrested for the April 1985 murder of a Missouri State Highway Officer. The third source provided illegal conversion parts for machine guns not only to members of The Order, but also to major narcotics dealers in the Pacific Northwest.

The third major firearms program area involves the illegal movement of firearms in international traffic, a worldwide concern. Since ATF has the primary responsibility in this country for the enforcement of Federal firearms laws, the Bureau must maintain an aggressive commitment toward neutralizing the illicit movement of firearms into, and out of, the United States. Examples of our efforts in these areas are:

An investigation established that between August 1, 1979, and March 7, 1980, a New York State resident illegally purchased 87 handguns from an FFL in Miami. The purchaser has a long history of affiliations with various domestic and international terrorist and radical organizations. The guns were apparently smuggled out of the United States in diplomatic pouches with the assistance of a diplomat attached to the South Yemen Mission in New York City. This official was expelled from the United States for his alleged involvement in this firearms trafficking. The defendant was convicted of Federal firearms charges in Miami on July 22, 1985.

On October 17, 1985, a Federal grand jury in Fort Lauderdale indicted three people for conspiracy and Federal firearms violations. In the indictment, this trio is accused of recruiting 12 other unnamed, unindicted people to buy guns. Each individual was paid $40 for each firearm purchase. It is believed that between July 1980 and April 1983, the three coconspirators may have illegally smuggled over 300 weapons to Colombia. The majority of these firearms are believed to have been .30 caliber paramilitary rifles that went to M-19, a leftist political revolutionary organization.

The fourth firearms program area, technical assistance, involves testing and evaluating firearms, ammunition and implements of war for proper classification under Federal law, and advising State, local and other Federal agencies on the technical aspects of firearms. We also trace firearms to assist Federal, State, and local law enforcement authorities. For example, in FY 1985, ATF received more than 44,560 requests for firearms traces from various law enforcement agencies. A total of 37,876 (85 percent) were successfully completed and the information transmitted to the requestor. Two notable traces are as follows:

> During FY 1985, ATF traced firearms recovered from members of The Order. Our trace of a semiautomatic pistol led to the determination that The Order was involved in the $3.5 million armored car robbery in Ukiah, California. The weapon was traced to an ex-CSA member of The Order.
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> In another case involving The Order, a search of a member's residence turned up a number of firearms and explosives. A MAC-10 machine gun with no serial number was confiscated and found to be the weapon that killed Denver talk show host Alan Berg in June 1984. The serial number was lifted through a forensic process and the gun was traced to a former CSA member and paramilitary instructor of The Order.

The fifth and last area of the firearms program involves investigating relief from disability applications. During 1985, ATF completed 1,679 of these investigations.

Alcohol Program

ATF investigates criminal violations of the Federal Alcohol Administration (FAA) Act and sections of the Internal Revenue Code. Emphasis is placed on suppressing organized criminal infiltration of the legal liquor industry and the deterrence of large-scale manufacturers and distributors of non-taxpaid alcohol where State and local authorities have insufficient jurisdiction. ATF also provides training to State and local officers in illicit liquor investigative techniques.

To ensure fulfillment of our objectives, the Bureau has developed the following strategies:

Target industry members for investigation where serious noncompliance with Federal laws and regulations is strongly alleged.

Conduct FAA Act investigations, based upon significant allegations or intelligence, to ensure the integrity of State officials in control States engaged in the distribution of alcohol beverages.

Conduct legal alcohol enforcement training courses concentrating on violations of ancillary felony statutes, e.g., RICO, Hobbs Act and mail fraud.

The following are examples of the type of alcohol investigations that have already been conducted by ATF:

On December 6, 1985, the operator of a licensed distilled spirits plant pled guilty following a lengthy investigation. The 57 counts against the defendant related to $228,723 of Federal alcohol excise taxes which the defendant had avoided through false tax returns.

On May 23, 1985, a defendant pled guilty to the possession of 1,290 cases of Macorix and Ron Siboney Rum. This incident was part of a conspiracy to smuggle non-taxpaid Dominican rum into the United States through Miami to New York for distribution.

The alcohol program expends a minimal level of resources to investigate illegal "moonshining" activity. This illicit activity has been significantly reduced by the past efforts of the Bureau. However, as a result of the Deficit Reduction Act, PL 98-369, the distilled spirits excise tax has increased 19 percent from $10.50 to $12.50 a proof gallon in FY 1986. The tax change could trigger an increased incentive to illegally produce, import, and/or distribute non-taxpaid spirits. The program is closely monitored to determine any effects from the tax change.

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Tobacco Program

Public Law 95-575 was enacted on November 2, 1978, to eliminate racketeering in the sale and distribution of cigarettes. Since that time, ATF has provided the leadership, technical expertise, and training which are necessary to enable States to develop their own contraband cigarette programs. During that same time frame, ATF also provided investigative assistance in complex, multijurisdictional tobacco tax frauds. Consequently, the States have developed enforcement capabilities to address the current problem and responsibility for the enforcement effort has been transfered to the States commencing FY 1987.

To augment the States' capabilities, ATF has provided training for State and local officers. During FY 1985, ATF developed a course for identifying counterfeit cigarette indicia. That course was presented to investigators in Illinois, New York, and Pennsylvania. In addition, ATF presented a 1-week contraband cigarette course to State officers at the Federal Law Enforcement Training Center in Glynco, Georgia.

The Advisory Commission on Intergovernmental Relations conducted two studies, one in 1975 and the other in 1984, of the contraband cigarette problem. They concluded that since the enactment of Public Law 95-575, the tax loss has dropped from 10 percent of the total revenue due States from their cigarette taxes to 5 percent. The majority of the remaining 5 percent is from activities outside of the purview of The Contraband Cigarette Act. These include small-scale bootlegging activities associated with military bases and Indian reservations.

Organized Crime Drug Enforcement Task Force Program

On October 14, 1982, President Reagan announced that 12 regional task forces would be created to implement a coordinated Federal effort against

drug trafficking organizations. The task forces, designated as Organized Crime Drug Enforcement Task Forces (OCDETF), became fully operational during FY 1983. On October 1, 1984, the Florida Caribbean Task Force in Miami was added as the thirteenth Task Force. During 1985, ATF participated in 38 percent of all OCDETF cases. ATF special agents assigned to this program initiated 541 cases and submitted 277 criminal cases, recommending 444 defendants for prosecution. This represents a steady increase since the inception of the program.

ATF efforts in the task forces during Fiscal Years 1986 and 1987 will continue to be directed against violations of the Federal firearms and explosives laws committed by organized criminal groups whose principal income is derived from trafficking in illegal drugs.

The following cases are examples of significant results achieved by the Bureau's OCDETF participation:

Nevada: On November 7, 1984, ATF agents and Las Vegas police arrested three people at the Sands Hotel as they delivered cocaine, valued in excess of $200,000, in exchange for 150 machine guns. The trio was arrested on State drug charges. A fourth suspect involved in the conspiracy agreed to assist authorities in arranging an undercover meeting with the main supplier of the cocaine. On November 8, 1984, ATF agents and Las Vegas police arrested two suspects subsequent to their delivering over 5 1/2 pounds of pure cocaine valued in excess of $1 million. Both men were arrested on charges of possession of cocaine for distribution.

Florida: On May 20, 1985, a Federal search warrant was executed by OCDETF agents on a waterfront residence in Miami where automatic weapons and hand grenades were allegedly stored. Several items, including approximately one pound of plastic explosives, two hand grenades, 75 feet of safety fuse, nine fuse igniters, one submachine gun, and one .22 caliber pistol (threaded to accept a silencer and with an obliterated serial number) were recovered. One suspect, who resided at the location, was arrested for violations of Federal firearms laws. Subsequent investigation disclosed that he had been offering the weapons and explosives for sale to drug smugglers for use in protecting their shipments.

Florida: On September 6, 1985, a major OCDETF target was sentenced in U.S. District Court in Miami to a total of 9 years incarceration and fined $7,000 as a result of his conviction for Federal firearms

violations. The investigation by ATF established that he was a Colombian National illegally in the United States, and that he had acquired a number of firearms from licensed dealers by using a fictitious identity. DEA has identified this suspect as the leader of a large nationwide cocaine distribution network. He is also alleged to be responsible for numerous drug-related homicides in the Miami and New York City areas. This conviction was of particular significance because no other charges are pending against the defendant and his anticipated incarceration will have an extremely adverse impact upon his drug organization.

California: On October 28, 1985, a suspect was sentenced by the U.S. District Court in Los Angeles to 6 years in prison for manufacturing controlled substances and being a convicted felon in possession of firearms. This sentence was a result of a 2-year OCDETF investigation by ATF and the California Bureau of Narcotic Enforcement into outlaw motorcycle gang involvement in the illegal manufacturing and distribution of methamphetamine. The defendant was a significant manufacturer of methamphetamine and was believed to be a supplier of this drug to the Hell's Angels Motor Gang in San Bernadino, California. A series of six search warrants were executed on residences, storage lockers, and automobiles that were controlled by the defendant. Three complete drug laboratories and a quantity of drugs and firearms were seized.

Assistance to the United States Secret Service

During FY 1985, ATF expended approximately 15 staffyears in protecting candidates during the 1984 Presidential campaign. The commitment to the U.S. Secret Service protection responsibility will begin again in FY 1987 with preparation for the 1988 Presidential election campaign. As a result of candidate protection training, ATF will expend approximately 10 staffyears in FY 1987.

We willingly accept U.S. Secret Service requests for our assistance. Their confidence reflects on the professionalism of our field agents and this assistance has further reinforced our working relationship with our sister agency.

COMPLIANCE OPERATIONS

ATF has the responsibility of regulating several industries which market products that are sensitive in nature and subject to much public interest. It

has been the Bureau's philosophy to regulate only in those areas which need to be regulated and then only to the extent necessary to achieve the intent of the law. We seek to reach a balance between effective administration of statutory requirements and the legitimate needs of industries under our jurisdiction.

The Bureau is extremely selective in setting goals because of our limited amount of resources. We ensure that these resources are efficiently used by concentrating our field work and regulation process on those areas which cause the most jeopardy to revenue collection or which pose the greatest threat to public safety.

To accomplish this objective, the Bureau's field offices continually assess and report on the compliance climate in their geographical jurisdictions. We then target our examinations to those entities where the greatest potential for noncompliance exists. Throughout the year, and especially at its conclusion, we analyze the progress made in our field programs, make necessary revisions, and identify new targets for the following year.

In addition to our regulation and field programs, we have adopted several other initiatives to increase compliance levels. We are improving the productivity of our employees by providing advanced training and by automating various activities in our offices. In all program areas, we conduct educational seminars which involve the active participation of industry members and State agencies. These seminars are creating an atmosphere in which our requirements are better understood and more likely to be complied with by all industry segments.

Alcohol Program

The Bureau's alcohol compliance program ensures that only legitimate persons enter the alcohol industry, the proper amount of excise taxes are

paid, alcohol beverage labels accurately describe the product, and industry members do not engage in prohibited trade practices.

Qualification

ATF is responsible for keeping prohibited and unqualified persons out of the alcohol beverage industry. We achieve this goal in two ways. First, under our comprehensive qualification process, we issue permits only to those individuals who have the necessary business experience, are not statutorily prohibited, and are likely to comply with our requirements. Second, for entities already qualified and possessing permits, we ensure that they remain in compliance by conducting highly selective investigations to determine that no hidden ownership or illegal funding has occurred. The following are examples of how ATF's qualification program keeps prohibited persons out of the alcohol beverage industry.

> An inspector conducted an investigation in Texas which disclosed that the president of the applicant corporation had been deported from the United States in 1984 for narcotics violations. ATF informed the Immigration and Naturalization Service which then arrested the individual.
>
> During an application investigation of a California company, the inspector found that hidden ownership was involved. The hidden owner was a person who had previously had his import permit suspended for failure to pay excise taxes. As a result of the investigation, the application was withdrawn.

Tax Compliance

Historically, ATF has encouraged the alcohol industry to pay the proper taxes through a strong revenue examination program. In FY 1985, there were $5.2 billion in alcohol excise tax collections. We believe that the current rate of tax compliance is directly related to this effort and that we can only expect future compliance to be as good as the examination, verification and enforcement process. The following are examples of the findings of revenue examinations conducted by Compliance Operations field personnel.

Inspectors conducted a revenue examination of a Kentucky distiller and found that it had underpayed excise taxes, kept fraudulent records, and falsified excise tax returns. The matter was referred to ATF Law Enforcement which, with the assistance of Compliance Operations inspectors, resulted in the criminal prosecution of the president of the distilling company and collection of $350,000 in delinquent excise taxes. ATF has claims against the assets of the distilling company, which has filed for bankruptcy in the interim. These claims are for $40,000 in additional delinquent excise taxes and $350,000 in penalties and interest.

Compliance Operations inspectors and auditors recently completed a revenue examination during which they found that the distiller in Indiana had poor internal controls over taxable removals and had failed to pay taxes on overproof bottled products. These deficiencies were corrected and over $106,000 in additional taxes were collected.

Compliance Operations inspectors conducted a examination of a distiller in Puerto Rico and found that the proprietor had claimed excise tax credits to which he was not entitled. The distiller has been assessed $143,000 to make up for the erroneously claimed items.

In support of examinations conducted at the premises of revenue producing plants, specialists in ATF regional offices review tax returns and other documents submitted by the revenue producers. These office reviews are an important part of ensuring that excise taxes are collected. The following is an example of the effectiveness of an office audit.

A specialist in the Philadelphia regional office analyzed the exportation files of a distiller and found there was no documentation that the distilled spirits in question had been exported. ATF has assessed the distiller $184,700 for the taxes due.

ATF is maintaining an effective taxpayment compliance program despite decreasing staffing resources. The audit skills of inspectors have been increased by an active training program and by management insistence upon high standards. Advanced training, such as EDP and Cost Accounting, is being given to field employees so that they are better able to detect taxpayment deficiencies.

ATF also has a small but effective staff of professional auditors who conduct examinations of the largest and most sophisticated taxpayers, and who serve as a technical resource for other segments of the Bureau.

ATF continually monitors the compliance levels of its taxpayers and analyzes which types of examinations are more effective. We do this to realize the most efficient use of our limited resources. Our analyses show, for example, which segments of the alcohol beverage industry are likely to have lower tax compliance rates and which types of examinations are effective in detecting tax fraud. We then plan our compliance examinations based upon these analyses.

On October 1, 1985, the excise tax rate on distilled spirits was raised from $10.50 to $12.50 a proof gallon. In connection with this increase, a one-time floor stocks tax of $2 a proof gallon was levied on all distilled spirits in inventory on that date. We felt that unique approaches were necessary to ensure that the 300,000 potential floor stocks taxpayers would pay the proper amount of taxes.

The Bureau, therefore, conducted an extensive information campaign combined with a highly visible, concentrated examination program. All segments of the distilled spirits industry were informed of the excise tax increase and related floor stocks tax. ATF representatives also attended numerous industry meetings to inform the industry about the tax increases.

Along with these informational efforts, ATF inspectors conducted over 5,000 inventory verifications in October and November 1985 to ensure that industry members would pay the proper amount of floor stocks taxes which become due in April 1986. As a result of these examinations, over $917,000 in increasing inventory adjustments and special occupational tax collections were made.

We also believe this high visibility effort deterred some taxpayers from illegally evading floor stocks taxes and encouraged others to pay all that they owed. In-depth examinations will be conducted after April 1986, once the tax

returns are filed, and after we have identified those taxpayers where potential noncompliance could have the most impact on revenue collections.

Alcohol Product Integrity

In July 1985, the Bureau learned that certain foreign wines might be contaminated with the hazardous substance diethylene glycol (DEG). ATF responded as a professional team: Headquarters and regional offices gathered information and organized field efforts, and field employees obtained nearly 2,000 imported wine samples for testing. As DEG contamination was found by the ATF Laboratory in over 80 different brands of imported wines, ATF employees again acted quickly to ensure that as little of the contaminated wine as possible reached consumers. Millions of wine bottles contaminated with DEG were, and are still being, recalled from the market to be destroyed, or returned to the foreign producer.

To protect and inform consumers, communications were established with industry, media, and State representatives. Inquiries from all sources were quickly and accurately answered. We believe that this incident involving diethylene glycol demonstrates the continued need for ATF's permit and label-approval requirements to ensure our continued ability to enforce quick and appropriate responses to protect the American consumer.

A program reduction of $1.6 million and 31 staffyears is proposed for FY 1987 in this subprogram, which oversees the enforcement of the Federal Alcohol Administration (FAA) Act. We plan to concentrate our reduced resources on shorter product integrity inspections in designated problem areas, such as contaminated wines.

International Actions

In 1985, the Bureau continued to play a major role in U.S. Government efforts to reduce or eliminate international barriers impeding U.S. alcoholic beverage trade. For example, ATF's technical and scientific expertise was instrumental in the European Economic Community's recent passage of revised regulations modifying the documentation requirement applicable to U.S. wines exported to the EEC. The modified requirements substantially reduce documentation costs and are expected to have a significant, positive impact on U.S. wine export trade with the Community.

ATF has also been working very closely with the Office of the U.S. Trade Representative in efforts to overcome the trade barriers existing in those countries targeted by the United States as having significant market potential for U.S. wine, distilled spirits and beer. In this connection, ATF technical support has played a key role in U.S. initiatives leading to the recent decisions by Japan and other targeted countries to reduce alcoholic beverage tariffs and harmonize the technical requirements applicable to these products.

In addition to its long-term efforts in international trade, ATF's role in dealing with the daily problems encountered by importers and exporters has brought about or maintained the flow of alcoholic beverages into domestic or foreign commerce. ATF's knowledge of domestic and foreign laws has enabled importers and exporters to supply their products timely and economically.

Market Integrity

To enforce the trade practice provisions of the FAA Act, the Bureau aggressively investigates allegations of significant violations, and our intent is to maintain an open marketplace. We concentrate our efforts on those industry members engaged in illegal interstate activities, leaving the less

complex, intrastate violations for State agencies to resolve. Indicative of the success of this approach, during 1985, we accepted offers-in-compromise totalling $147,000 to resolve 13 cases.

For the past few years, we have held trade practice seminars throughout the country. The purpose of the seminars has been to increase the cooperation between ATF and State agencies and to increase the level of compliance by industry members. The 132 seminars held last year were very well received by both industry and State agencies.

Tobacco Program

ATF's tobacco compliance program is similar to the qualification and revenue protection aspects of our alcohol program. We screen applicants for permits and conduct qualification inspections to ensure that only eligible persons likely to comply with regulations enter the industry.

Field employees conduct revenue examinations at tobacco products factories and other locations to verify that all excise taxes have been paid. In FY 1985, $4.7 billion in tobacco excise taxes was collected.

On January 1, 1983, the cigarette excise tax was increased from $4 to $8 per 1,000. In connection with that increase, a floor stocks tax was assessed on all cigarettes in inventory at distributors' premises on January 1, 1983. Approximately $1.8 million in additional taxes, penalties and interest was collected as a result of the cigarette floor stocks tax examinations conducted by inspectors and auditors. In addition, two wholesalers pled guilty to criminal tax evasion charges, and a cigarette vending company was given a jeopardy assessment of $250,000.

Firearms Program

The Bureau's firearms program is based upon the Gun Control Act of 1968 and other statutes. Licenses are required to manufacture, import, and sell firearms. The intent of the statutes, and our qualification efforts, is to prevent statutorily prohibited persons from obtaining licenses. In FY 1985, our regional offices processed the following license actions: 112 applications were denied; 18 licenses were revoked; 892 applications were voluntarily withdrawn; and 905 applications were abandoned as a result of our requests for additional information.

A very important aspect of our firearms program is the support given to ATF special agents in their efforts to apprehend criminals and assist other law enforcement agencies. For this reason, inspectors frequently work with special agents in identifying criminals who purchase firearms and in investigating licensees who criminally misuse their license.

Inspectors also conduct compliance inspections of licensees previously identified as likely to violate the provisions of the firearms statutes. The purpose of these inspections is to prevent firearms dealers from making sales to prohibited persons and to ensure that a dealer's records are sufficient to trace the flow of crime guns when a law enforcement agency requires a firearms trace.

ATF's regional offices are responsible for processing firearms license applications and for maintaining the Bureau's firearms records files. In 1985 there were 248,800 firearms licensees. Regional offices processed over 90,000 applications, of which 37,400 were first-time applicants and 52,800 were renewals. Regional offices also responded to numerous requests for information from law enforcement agencies concerning the license status of individuals.

The Bureau has been making administrative improvements in the way it handles firearms applications and fees. During the summer of 1985, ATF instituted a "lockbox" for all firearms and explosives application fees. This "lockbox" approach funnels all applications and fees to a single location which, in turn, immediately deposits the money with the U.S. Government and then forwards the application documents to the appropriate regional office. The "lockbox" approach will save over $100,000 a year in processing costs and will accelerate the approval time of applications.

ATF is also responsible for enforcing the registration and revenue provisions of the National Firearms Act (NFA), a statute which regulates machine guns and gangster-type weapons. The Bureau has automated its NFA registration files to handle registration information on over 223,000 NFA firearms and to more quickly act upon requests for information.

As in other program areas, the Bureau uses seminars for firearms licensees as a means of improving their understanding of and compliance with Federal laws. We actively involve State officials in putting on the seminars. Forty-three of these seminars were conducted last year and the response from the firearms industry has been very positive.

Explosives

ATF's explosives program ensures that licenses and permits are issued only to eligible persons, that records are maintained in order to permit traces of explosives used illegally and that explosive materials are stored safely and securely. Regional office personnel review all applications for accuracy and initiate criminal records checks to prevent prohibited persons from receiving a license or permit. Inspectors examine explosives storage facilities before license or permit issuance to make sure that the facilities meet stringent

Federal requirements. The following are two examples of how our explosives program ensures that explosives are stored safely.

> An inspector conducted an explosives compliance inspection and found that the Oklahoma licensee had exceeded the limits for indoor explosives storage facilities and was storing 2,000 pounds of dynamite too close to an inhabited house. The inspector had the licensee move the explosives to a safe storage location.
>
> During another explosives compliance inspection, an inspector found that an explosives licensee in Ohio had 350 pounds of badly deteriorated dynamite in its storage facility. These explosives were safely and quickly destroyed by authorized personnel to prevent their accidental detonation.

After a person is issued an explosives license or permit, ATF inspectors conduct periodic compliance inspections. These inspections ensure that the storage facilities continue to meet ATF safety and anti-theft requirements, and that sufficient records are maintained to enable law enforcement officers to trace the movement of explosive materials.

Of particular concern to ATF is the safe storage of fireworks. The Bureau conducted two field tests of fireworks explosions in 1985. These tests indicate that some fireworks are more powerful than others and should be stored in more secure storage facilities. We are in the process of revising the Table of Distances to require fireworks to be stored farther away from inhabited buildings, roadways, and other explosives storage facilities.

Office Automation

To minimize the effects of staffing reductions and other shortages, ATF is carefully developing and implementing office automation. Many of the Bureau activities are being helped by the judicious use of computer technology. Inspectors and auditors now routinely use computers to assist them in completing assignments. Tasks such as developing graphs and trends, analysis of data for arson investigations, computing interest and penalty

assessments, preparing reports of examination results, and generating random numbers are performed using these computers.

Field supervisors use software applications to monitor progress so that the Bureau's resources are most efficiently used. The status of examinations and inspections are monitored and reported to Headquarters on a monthly basis, and any necessary changes in program areas can be made quickly.

Regional and Headquarters offices also use computers on a regular basis. Although many of the applications are related to sophisticated word processing, computers also store voluminous reference information, perform complex calculations, and assist in detailed analyses.

EQUAL OPPORTUNITY PROGRAM

Finally, but by no means least important, are our equal opportunity activities of the Bureau.

Our primary effort continues to make equal opportunity responsibilities a performance standard of all executives and managers.

The Bureau has made outstanding progress over the last several years. This progress is due to the persistent support of affirmative action for minorities and women by management at all levels in the Bureau. The Office of Equal Opportunity has been extremely successful in this endeavor because of its ability to assist in recruiting qualified minority and women candidates to fill existing vacancies at all job levels. Of the 312 employees hired during FY 1985, 78 percent were minorities or women. The Bureau plans to continue its aggressive recruitment campaign to enhance the overall profile of minorities and women in our workforce.

In order to meet our obligations under the law mandating community outreach, the President's Initiatives on Historically Black Colleges and Universities, and the Federal Equal Opportunity Recruitment Program, the

Office of Equal Opportunity was involved in continuous recruitment activities. Over 1,100 individuals were provided information on the Bureau and on application procedures for special agent and inspector positions. In addition, Bureau representatives made numerous presentations at colleges and universities.

Finally, under our recruitment program, the Office of Equal Opportunity has worked jointly with the Office of Law Enforcement to implement an innovative Minority Impact Program to ensure the Bureau's commitment to full minority/female special agent representation and development.

Mr. Chairman and Members of the Subcommittee, this completes my statement. I will be happy to answer any questions you or Members of your Committee may have.

Biography

Chester C. Bryant

Chester C. Bryant assumed his present position as Comptroller in October 1984. Since joining the Bureau of Alcohol, Tobacco and Firearms as a Special Agent in 1965, Mr. Bryant has held numerous positions of increasing responsibility, including: Resident Agent in Charge at Macon, Georgia; Assistant Special Agent in Charge at Austin and Houston; and managerial positions at Headquarters, including Special Agent in Charge of the Organized Crime Branch. He subsequently became Special Agent in Charge for the Nashville District Office in October 1979. Mr. Bryant served in this capacity until July 1984, when he was designated Acting Compliance Regional Director.

His current duties involve planning and executing ATF's support activities, which include financial management, personnel, data processing, communications and office automation, administrative programs, training, management analysis, and the full range of laboratory and scientific services.

Mr. Bryant was born on July 23, 1939, in Grantville, Georgia. In addition to graduating from Harris College in Houston, Texas, he has completed graduate coursework at Vanderbilt University and numerous law enforcement and executive development seminars. Mr. Bryant's family includes his wife Brenda and two children, Michelle and Chester, Jr.

Mr. HIGGINS. Thank you.

FY 1987 BUDGET REQUEST

Our FY 1987 budget request is $178.5 million, and 2,850 staffyears, which represents a net dollar increase of $11.7 million and a personnel decrease of 91 staffyears compared to our proposed authorized level for FY 1986.

Our request includes program reductions of $4.7 million and 91 staffyears, offset by an increase of $8.9 million to maintain the current level of operations as well as the restoration of $7.5 million associated with the FY 1986 Gramm-Rudman-Hollings (G–R–H) reductions.

Mr. COLEMAN. Mr. Chairman, may I stop him right at that point.

You used the term proposed when you talked about the net increase of $11.7 million, decrease of 91 staffyears compared to the proposed authorized level for FY 1986.

Is that the proposal that the Administration sent us before we got involved with the Gramm-Rudman or the actual CR? What does that proposed authorized level for 1986 refer to?

Mr. HIGGINS. It is the proposed level after the Gramm-Rudman cut.

Mr. COLEMAN. After it was affected by Gramm-Rudman, after the continuing resolution was affected by the Gramm-Rudman cut?

Mr. HIGGINS. Yes.

Mr. COLEMAN. Okay. Thank you.

FY 1987 PROGRAM REDUCTIONS

Mr. HIGGINS. Two program decreases have been included in our FY 1987 request. First, 60 staffyears and $3.1 million will be eliminated from the Law Enforcement Tobacco Program. Public Law 95–575 was enacted on November 2, 1978, to eliminate racketeering in the sale and distribution of cigarettes. Since that time, ATF has provided the leadership, technical expertise, training and investigative assistance on complex, multijurisdictional tobacco tax frauds. Consequently, with our assistance, the States have developed their own enforcement capabilities, and responsibility for the program enforcement would be transferred to them commencing in FY 1987.

The other program decrease includes 31 staffyears and $1.6 million from the Compliance Operations Alcohol Program. This reduction will be confined to the product and market integrity subprogram, which includes the enforcement of the FAA Act. The Bureau aggressively investigates allegations of significant violations, and our intent is to maintain an open marketplace. We plan to concentrate our reduced resources on shorter, more intensive product integrity inspections in designated problem areas, such as in contaminated wines.

Due to the enactment of G–R–H legislation, the proposed authorized level for FY 1986 has been reduced by 4.3 percent, or $7.5 million, from the Continuing Resolution appropriation of $174.2 million and 2,941 staffyears. That leaves a revised level for FY 1986 of $166.7 million and 2,941 staffyears. While the G–R–H reductions will have a direct impact on all Bureau programs, we have at-

tempted to minimize this impact by maintaining current staffing levels, focusing the reductions in operational areas rather than in personnel. A detailed discussion of the impact of the G–R–H cuts is contained in the FY 1987 budget justification materials.

PRODUCTIVITY AND MANAGEMENT IMPROVEMENTS

Looking to accomplishments, during FY 1985 and FY 1986 to date, the Bureau has accomplished a great deal from both a managerial and a programmatic standpoint. Efficiencies gained in our administrative processes have continued at a vigorous pace. This can best be illustrated by our successful efforts to completely centralize all administrative functions at Headquarters by implementation of the Federal Managers' Financial Integrity Act of 1982, and by our continued efforts to utilize services from other Federal agencies, as well as the private sector, to minimize the staffing required to effectively accomplish the Bureau's mission. These initiatives have led to what I believe to be a responsible application of valuable resources.

PROGRAM ACCOMPLISHMENTS

Our efforts and achievements are most evident in our program accomplishments where, as you know, we have a wide diversity of responsibilities. In Law Enforcement, our firearms, explosives, and arson programs have been particularly successful in combatting bombings, narcotics trafficking, arson-for-profit, terrorism, and other crimes of violence. Nearly 4,000 suspects were recommended for prosecution during FY 1985, including violent career criminals prosecuted under the new Comprehensive Crime Control Act of 1984.

Participation in the Organized Crime Drug Enforcement Task Forces (OCDETF) was expanded to the 13th task force city, Miami. I am proud to report that during 1985, ATF participated in 38 percent of all the OCDETF cases, resulting in 444 defendants being recommended for prosecution.

To further enhance public safety, ATF has undertaken two new initiatives to address the increased threat of terrorism worldwide. During FY 1986, ATF began implementation of an international explosives incident data base, I-EXIS, which will be able to compare both foreign and domestic explosives incidents. ATF also began training foreign law enforcement officials as a member of the State Department's Government-wide Anti-Terrorism Assistance Program (ATAP).

Efforts in the U.S. continue to focus on convicted felons who use firearms in violent crimes, violent domestic and international terrorist/hate groups, unscrupulous property owners who engage in arson-for-profit, and those who traffic in firearms, ammunition, and explosives in furtherance of criminal activities. ATF also targets illegal manufacture, transportation, and distribution of fireworks, where potential for disaster is enormous.

To complement this latter effort, our Compliance Operations Office is currently revising regulations to require fireworks to be stored farther away from inhabited buildings, roadways and other explosives storage facilities to ensure public safety.

We also seek to protect the American consumer through laboratory analysis of alcoholic beverage samples; in FY 1985, more than 80 different brands of imported wines were found to be contaminated with diethylene glycol, a hazardous substance. As a result, millions of bottles of wine were and are still being recalled from the market.

Compliance Operations also concentrates field work and the regulation process on those areas which cause the most jeopardy to revenue collection. In order to ensure collection of over $10 billion in alcohol and tobacco excise taxes, we continually reassess local compliance climates and the effectiveness of each type of examination we perform. Inspector and auditor skills are being upgraded through advanced training, such as ADP and cost accounting courses, and the use of computers to assist in financial analyses.

With the $2 increase in the excise tax rate on distilled spirits and the one-time floor stocks tax at the beginning of this fiscal year, the Bureau combined an extensive information campaign with a highly visible concentrated examination program to verify distilled spirits inventories and ensure proper revenue collection due in April 1986. So far, these efforts have resulted in nearly $1 million in increasing inventory adjustments and special occupational tax collections. This figure will continue to grow for some time. The much more limited January 1983 cigarette floor stocks tax examinations resulted in $1.8 million in additional taxes, penalties and interest.

I would like to emphasize that I have selectively discussed only a small portion of the accomplishments the Bureau has made during FY 1985 and to date in FY 1986. Our overall accomplishments by program are discussed in greater detail in my general statement which was submitted for the record.

EQUAL OPPORTUNITY PROGRAM

Finally, but by no means least important, I would like to update our equal opportunity activities. We have continued to make significant equal opportunity accomplishments an important expectation of all executives and managers. Persistent support of affirmative action for minorities and women at all levels has been outstanding, as evidenced in the past year; of the 312 employees hired during FY 1985, 78 percent were minorities or women.

With the continued support of the Administration and Congress, particularly this Subcommittee and your counterparts in the Senate, ATF will continue to deliver quality Law Enforcement and Compliance Operations efforts in FY 1987 and beyond.

Mr. Chairman, that concludes my summary statement. We will be pleased to answer any questions you or other Members of the Subcommittee may have.

Mr. ROYBAL. I would like to have a little review of your various functions. But, first of all, let us look at your request.

FY 1987 STAFFING REDUCTION

You are requesting an increase over 1986 of $11,742,000, but yet you are reducing staff by 91 positions.

Why do you have to reduce staff if you are increasing your budget by $11 million?

Mr. HIGGINS. A large portion of that cost is simply to adjust for the increased cost of living. This will allow us to maintain the current level of operations in FY 1987.

We are proposing a program reduction of 60 positions in the cigarette smuggling program because we feel that the States are in a position to assume responsibility for program enforcement. We have provided training and technical expertise in identifying counterfeit cigarette sealing devices. With our assistance, the States have developed their own enforcement capabilities.

So our FY 1987 request is a combination of escalating costs and program reductions.

Mr. ROYBAL. Is that your decision, or is it something that you have been asked to do—the reduction of 91 staff? It is in the category or tobacco, is it not?

Mr. HIGGINS. Yes, 60 positions are being reduced from the tobacco program.

Mr. ROYBAL. 60.

It is very hard to understand, why you are reducing staff by 91, and yet you are asking for almost $12 million more. Gramm-Rudman has nothing to do with this staff reduction, does it?

Mr. HIGGINS. No. I would like to add that part of the proposed funding increase is due to the deferral of costs under Gramm-Rudman this year. We have cut back travel and postponed all types of major equipment purchases, including purchase of cars. Part of the request for next year is funding to purchase items that we badly need this year.

The offsetting program reduction in the cigarette smuggling area, as you rightly point out, is in a program that we feel would no longer be cost-effective. It is not driven by Gramm-Rudman.

Mr. ROYBAL. Does that mean, however, that 91 people are going to be fired?

Mr. HIGGINS. No. We believe we can accomplish these reductions through attrition. We are very sensitive, and we know this Committee is, to reductions in force of any kind. We are especially concerned because when it looked like we were going to go out of business in 1981 and 1982, we had to send out reduction-in-force notices to our employees. We do not want to do anything that even hints of that.

We have sufficient attrition that if we take the 91 position cuts, we can begin to take it early in the year and would not have to RIF anyone.

Mr. ROYBAL. So no one then would be fired of those 91 positions that you will have to reduce?

Mr. HIGGINS. That is our intent.

Mr. ROYBAL. So at least 60 in the tobacco program and where do the rest——

Mr. HIGGINS. The additional 31 positions would come out of the Compliance Operations, Alcohol Program. This reduction will be confined to the product and market integrity subprogram, which oversees the enforcement of the FAA Act. This program was re-

duced because the tobacco, firearms and explosives programs are already at minimal levels.

Mr. ROYBAL. Now you have four major activities, which are alcohol, tobacco, firearms, and explosives. And that is broken down into two categories, regulatory and law enforcement activities.

Will your reduction in staff take place on the law enforcement side or the regulatory side?

Mr. HIGGINS. A total of 60 positions would be eliminated from the law enforcement tobacco program.

Thirty-one positions would be reduced in the regulatory alcohol program.

REGULATION AND LAW ENFORCEMENT ACTIVITIES

Mr. ROYBAL. Now, will you tell the Committee the difference between the regulatory and law enforcement functions?

Mr. HIGGINS. The law enforcement part of the organization, that is the part of the organization that, for example, in the firearms area is involved in investigation and prosecution of violent criminals, firearms traffickers, career criminals, etc.

By contrast, the compliance portion of the firearms program, as an example, is involved in the licensing and inspection of licensed firearms dealers.

In the alcohol area, the law enforcement side deals with potential infiltration of organized crime into the liquor industry, or large-scale frauds; whereas the regulatory or compliance side of the alcohol area is involved in the revenue collection and protection program, and also in the enforcement of the FAA Act which monitors trade practices, labeling and other aspects of the alcohol industry.

Most Law Enforcement personnel are special agents, and most regulatory or compliance operations personnel are inspectors.

ANTI-TERRORISM EFFORTS

Mr. ROYBAL. Now, what are your responsibilities with regard to anti-terrorism? Which categories does that fall into?

Mr. HIGGINS. Our efforts to combat terrorism fall into two categories. Part of the activity is in the firearms area and part is in the explosives area.

Number one, we investigate terrorist or hate groups, such as the Covenant, the Sword, and the Arm of the Lord group. In Arkansas last year we arrested a number of people in this organization who were involved in a Federal firearms conspiracy.

We target several specific violations, such as having unregistered automatic weapons or other types of munitions. We investigate them if they are involved in explosives activities. We provide tracing support to the FBI and other agencies who are involved in investigating terrorists. We trace explosives and firearms that are used in crime through our National Firearms Tracing Center. We provide training to the State Department. We have what we call our Explosives Incident System, EXIS, where we have thousands of records of explosives incidents which have occurred in this country where we have identified the kind of device that has been used.

When there is an explosion, we can tap that data bank and find out whether or not the same type of device has been used in any other current explosions. We have expanded our anti-terrorism effort to gather information about explosions that are occurring throughout the world from various agencies. So that if we have explosions in this country, we can compare the type of device that is being used to see if there are any groups that have imported their terrorist acts to this country. We are going to use this information as a kind of advanced warning system.

So we have a number of things going from direct investigative activity through support to other Federal law enforcement agencies.

IMPACT OF FURTHER BUDGET CUTS

Mr. ROYBAL. You told the Committee then that there would be a reduction of 91 positions, all by attrition, and that you requested an increase of $11,742,000.

Supposing you did not get the $11,742,000. You intend to reduce staff anyway.

What would be your situation if, in fact, the $11 million was not forthcoming?

Mr. HIGGINS. If we do not get the $11 million, I cannot guarantee that we will not have to RIF people. While I have not computed it, I guarantee at this point that we deferred most optional items and I think that of the $11 million a large amount would have to come out of personnel costs. I do not think we could accomplish a reduction of this magnitude by attrition.

I can cost it out and provide it for the record. I know that it would mean that we would have to reduce personnel.

Mr. ROYBAL. Well, we would like to know the answer to that question.

You seem to be in need of $11,742,000 in order to guarantee that you will be fully staffed, equipped with qualified people to perform all of the duties that are assigned to your agency.

Mr. HIGGINS. Yes, sir.

Mr. ROYBAL. Short of that, we have to figure out what would happen should you not get the $11,742,000.

Mr. HIGGINS. I will provide it for the record. Thank you.

[The information follows:]

Question. Your budget request includes $11.7 million to maintain the current level of operations in FY 1987. If you did not receive this funding what impact would it have on your agency?

Answer. The net increase of $11.7 million requested in FY 1987 is needed to meet mandatory cost increases, such as within-grade salary increases and other cost items, including the program levels reduced by the Gramm-Rudman-Hollings legislation. These items by definition are nondiscretionary and will be paid at the higher rates in FY 1987. If Congress did not provide us with this funding, we would have no alternative but to substantially reduce personnel in FY 1987. Specifically, the Bureau would immediately put a freeze on all hiring, eliminate all temporary personnel from the rolls and initiate a reduction-in-force effective January 1, 1987. As a result of these actions the bureau would lose approximately 650 employees (nearly one quarter of our work force) which translates into an average position reduction of 378 (13 percent below the President's Budget). Staffing reductions of this magnitude will adversely affect all Bureau programs during FY 1987. The overall impact

will culminate in the potential loss of revenue related to uncollected taxes and diminished public safety.

Mr. ROYBAL. Mr. Skeen?

Mr. SKEEN. Thank you, Mr. Chairman.

We apprectiate the work that you do and, of course, we have made your job a lot easier with Gramm-Rudman. We want to keep this exciting. [Laughter.]

BUDGET IMPACT ON REVENUE

Have you calculated the revenue impact on the budget reduction area in compliance and the alcohol program, for instance?

Mr. HIGGINS. Mr. Drake has done some work on that.

Mr. DRAKE. We have not calculated out what we are going to lose. We expect it would be a diminished revenue return.

We expect it not only because of Gramm-Rudman, but because of the way the economy is growing generally. We are seeing things we have never experienced before. In the past 3 years, there have been 30 bankruptcies.

Mr. SKEEN. They are having a tough time in the distilled spirits industry.

Mr. DRAKE. In the alcohol industry, yes, absolutely.

People are filing late, and telling us the reason they filed late, was the tax payment would have disrupted their cash flow. We are seeing things we have never experienced before. And we expect it to continue.

Mr. SKEEN. So your rationale is if you are going to reduce in any area, this is the one area that you could probably take your budget cut?

Mr. DRAKE. The predominant reduction will occur in Federal Alcohol Administration Act enforcement. That is a trade practice rather than direct revenue-related program.

Mr. SKEEN. We are very sensitive about revenue impact as well. And I know that the alcohol business has not been that great of a producer of revenue.

Mr. DRAKE. We have cut back in that program over the years, and have experienced, as I mentioned, 30 bankruptcies. We have seen our collections diminish.

Mr. SKEEN. So increasing the budget, or increasing the funding insofar as some of these programs would not appreciably help the revenue picture?

Mr. HIGGINS. We cannot. If we could prove that we would ask for more funding.

Mr. SKEEN. Well, I am sure you would.

One of the questions that I had, was how sensitive you are to revenue discussions?

Mr. HIGGINS. What makes it difficult to prove the figures is that it is a small group of people paying and certainly the main reason they pay their excise taxes for alcohol and tobacco, is that they are very tightly controlled. We control who goes into the business. But it is the expectation that they will be tightly controlled and that they will be regularly audited by qualified people that we think tends to lead them to comply.

Now, to the extent the first year that we were not able to perform those audits and we were to pull people back, I doubt you would find that kind of a revenue fall-off. Industry would still be operating as if things were as they had been in the past.

Now, if you continue to pull people out, or continue not to go into those plants, and they knew you were not coming in, then I suspect it would be like some of the things for income taxes that are going to be audited. You would have some erosion.

Mr. SKEEN. You do get some reaction or impact of their perception of how effective your examination is?

Mr. HIGGINS. Yes. We think it is very high.

Mr. DRAKE. We actually have recent evidence of an individual who went into business, filed his first couple of returns, then stopped filing returns but continued to sell his products. When we finally uncovered this, he was sentenced, I believe, to 2 years plus having to pay back approximately $1.2 million.

GLOCK 17 PISTOL

Mr. SKEEN. I want to compliment you on the work that you did in Albuquerque.

I am also concerned about the area of firearms smuggling. I know that it is an increasing problem too. Tell me about BATF's role in regulating the import of the Glock 17 pistol, the plastic handgun that can supposedly slip through metal detectors unnoticed. Also what about machine gun conversions.

Mr. HIGGINS. I would like to address the Glock and then I will ask Mr. McGuire to address the conversion problem.

Probably a lot of the information you have seen in the paper about potential danger of the Glock 17 coming into this country without being detected is exaggerated and inaccurate.

I have some information on the weapon and I will provide it for the record.

[The information follows:]

BEDIENUNGSANLEITUNG

für die superleichte, 17schüssige Safe-Action Selbstladepistole GLOCK 17

ZU BEACHTEN:

Die Waffe ist stets als geladen und feuerbereit zu betrachten, bis sich der Schütze **persönlich** – durch Abnehmen des Magazines und Entladebewegungen mit dem Verschlußstück – vom Gegenteil überzeugt hat.

Die Waffe darf bei jedwedem Hantieren **nie** gegen Personen gerichtet werden. Eine unbeabsichtigte Schußabgabe ist jederzeit anzunehmen. Der Abzugsfinger ist grundsätzlich am Abzugbügel anzulegen und erst dann auf den Abzug zu bringen, wenn die Waffe in das Ziel zeigt.
Beim beidhändigen Schießen darf der Daumen der zweiten Hand nie hinter dem Verschlußstück liegen.

Vor dem Waffengebrauch sind die beiliegende Bedienungsanleitung, im besonderen die angeführten Sicherheits- und Garantiehinweise zu beachten.

Die Waffe muß so verwahrt werden, daß ein Zugriff Unbefugter, **insbesondere von Kindern, ausgeschlossen ist.**

INSTRUCTIONS FOR USE

for the super-light 17-round Safe-Action self-loading pistol GLOCK 17

TAKE NOTE:

It should always be assumed that the weapon is loaded and ready to fire until the handler has convinced himself **personally** to the contrary by removing the magazine and by carrying out the unload movements of the slide.

During handling, the weapon must **never** be pointed at anyone.
It must always be assumed that the weapon may fire accidentally, at any time. The trigger finger should in principle rest on the trigger guard, and should only be brought to the trigger when the weapon is pointing at the target.
When firing with both hands, the thumb of the second hand must never be behind the slide.

Before using the weapon, the enclosed operating instructions are to be studied carefully, in particular the safety and guarantee instructions listed.

The weapon must be kept in such a way that **it cannot be made accessible to unauthorized persons, in particular children.**

INSTRUCTIONS DE SERVICE

du pistolet automatique, superléger, 17 coups, Safe-Action GLOCK 17

OBSERVATION

L'arme doit toujours être considérée comme chargée et prêt à tirer, tant que le tireur ne se soit pas **personnellement** convaincu du contraire par l'enlèvement du magasin et par les mouvements de déchargement avec la culasse.

L'arme ne doit **jamais** être dirigée vers une personne lors de toute manipulation. Un coup de feu involontaire doit être pris en considération à tout moment. Le doigt de détente doit être généralement placé sur le pontet et posé ensuite sur la détente seulement lorsque l'arme est pointée sur la cible.

Lors de tirs à deux mains, le pouce de la deuxième main ne doit jamais être placé derrière la culasse.

Les instructions d'utilisation données ici doivent être observées **avant** d'utiliser l'arme, en particulier les indications de sécurité et de garantie.

L'arme doit être conservée de façon à ce qu'aucune mainmise non autorisée, **en particulier de la part des enfants** ne puisse se produire.

INSTRUCCIONES DE MANEJO

de la pistola automática extra-ligera «Safe-Action» con capacidad para 17 cartuchos GLOCK 17

ADVERTENCIA:

El arma ha de considerarse siempre como cargada hasta tanto que el tirador no se haya cerciorado **personalmente** de lo contrario por haber quitado el cargador y efectuado los movimientos de descarga con la culata.

Cualquiera que sea el uso, el arma **nunca** debe apuntarse contra personas. Hay que tomar en consideración en cada momiento la posibilidad de un tiro involuntario. El dedo que acciona el disparador debe ponerse siempre en el estribo del disparador; debe tocar el gatillo sólo cuando el arma ya apunta al blanco.
Si se tira teniendo el arma con ambas manos, el pulgar de la segunda mano no debe nunca colocarse por detrás de la culata.

Antes de utilizar el arma hay que leer atentamente las instrucciones de manejo en el anexo, sobretodo las instrucciones de seguridad y de garantia contenidas.

Hay que conservar el arma en un lugar que se excluye de antemano el acceso de personas extrañas, **particularmente de niños**.

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ALLGEMEINE BESCHREIBUNG

Die GLOCK Safe-Action Selbstladepistole vereint in ihrem kompromißlosen Design nahezu alle Eigenschaften, die von einer modernen Faustfeuerwaffe **heute** – und **morgen** – gefordert werden:

- Extrem niederes Gesamtgewicht
- Hohe Magazinkapazität
- Größtmögliche Sicherheit des Schützen
- Hervorragende Führungseigenschaften, sowie die Anwendung fortschrittlicher Fertigungsmethoden und hochwertiger Werkstoffe.

Die Waffe ist ein mechanisch verriegelter Rückstoßlader mit automatischer Schlagbolzen- und Abzugssicherung und Safe-Action-Abzugssicherung und Safe-Action-Abzugssystem.

Jede Patrone wird selbsttätig nachgeladen, bis das Magazin leer ist. Danach wird das Verschlußstück (1) in geöffneter Position vom Verschlußfanghebel (27) gefangen.

GENERAL DESCRIPTION

The GLOCK Safe-Action self-loading pistol, with its no-compromise design, combines virtually all the features demanded of the modern handgun of **today** – and of **tomorrow**:

- Extremely low overall weight
- High magazine capacity
- Maximum possible safety for the user
- Outstanding performance characteristics, combining advanced methods of manufacture with top-quality materials.

The weapon is a mechanically-locked recoil-operated pistol with automatic firing pin and trigger safety as well as Safe-Action trigger safety and Safe-Action trigger system.

Each round ist automatically loaded until the magazine is empty. The slide (1) will then remain in the open position, held by the slide stop lever (27).

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DESCRIPTION GENERALE

Le pistolet automatique Safe-action GLOCK réunit dans son design sans compromis presque toutes les qualités exigées **de nos jours** et **demain** pour une arme à feu individuelle se maniant d'une seule main:

- poids total extrêmement léger
- grande capacité du magasin
- sécurité maximale du tireur
- qualités d'exécution remarquables ainsi qu'application de méthodes de fabrication évoluées et de matériaux de grande qualité.

C'est une arme automatique fonctionnant par recul, à verrouillage mécanique, avec une sûreté de percuteur et une sûreté de détente automatiques ainsi que d'une sûreté et d'un système de détente Safe-action.

Chaque cartouche monte automatiquement en position de tir jusqu'à ce que le magasin soit vide. La culasse (1) est ensuite bloquée en position ouverte par l'arrêtoir de culasse (27).

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DESCRIPCION GENERAL

La pistola automática GLOCK «Safe Action» combina en su concepción enérgica casi todas las características exigidas de un arma de fuego manual moderna **hoy día** – y también **mañana**:

- peso total extremamente bajo
- alta capacidad del cargador
- el más alto grado de seguridad posible para el tirador
- características excepcionalmente buenas de manejo, así como el empleo de los más modernos procedimientos en la producción y el uso de materiales de altísima calidad.

Es un arma de recarga por el retroceso, con bloqueo mecánico y seguro automático del percutor y del gatillo, así como seguro del gatillo sistema «Safe Action» y sistema de disparador «Safe-Action».

Cada cartucho se carga automaticamente, hasta que el cargador esté vacío. Entonces la culata (1) queda prendida en posición abierta por el retenedor de cierre (27).

HAUPTMERKMALE

Das neue Safe-Action-Abzugssystem bietet dem Schützen die beste Möglichkeit, jeden Schuß schnell und ohne Bedienung außenliegender Sicherungen abzugeben.

Der Schlagbolzen (5) ist nach Abgabe eines jeden Schusses automatisch teilgespannt und vollkommen gesichert. Ein unbeabsichtigtes Lösen eines Schusses beim Fallenlassen der geladenen Waffe oder durch Erschütterungen ist ausgeschlossen.

Ein Schuß kann nur durch bewußte Betätigung des Abzuges (26) abgegeben werden. Dabei muß der Abzugsfinger zuerst die Abzugssicherung betätigen. Eine Schußauslösung ist durch außermittiges, seitliches Drücken des Abzuges nicht möglich.

Der Verschlußfanghebel (27), sowie der **Magazinhalter** (19) sind mit der Schießhand leicht bedienbar.

Das Griffstück (17) aus Kunststoff mit den gehärteten Stahlführungen besticht durch die **idealen Abmessungen**, **Griffwinkel** und **geringes Gewicht.**

Die Waffe hielt den härtesten Tests von Militär und Polizeisondereinheiten stand und wird von diesen als Spitzenprodukt bezeichnet.

MAIN FEATURES

The new Safe-Action trigger system offers the shooter the best possibility getting off every shot quickly and without having to operate external safety devices.

The firing pin (5) ist automatically put under partial tension after each round, and is fully secured.
There ist no risk of an accidental discharge due to dropping the loaded wapon or due to shaking.

The pistol can only be fired by deliberately pressing the trigger (26). To do this the trigger finger must first actuate the trigger safety. Discharge of a shot by off-centre, sideways pressure on the trigger is impossible.

The slide stop lever (27) and the **magazine catch** (19) are easily operated with shooting hand.

The receiver (17), made of plastic with hardened steel guides, has the outstanding features of **ideal dimensions, ideal receiver angle and low weight.**

The weapon has passed the most stringent tests by the military and police special units, and is regarded by them as an absolutely top-class product.

CARACTERISTIQUES PRINCIPALES

Le nouveau système de détente Safe-Action offre au tireur la possibilité de tirer chaque coup rapidement et ceci sans manipuler des systèmes de sûreté situés de façon exterieure.

Après chaque tir, **le percuteur** (5) est automatiquement tendu partiellement et entièrement en sureté.
Le déclenchement involontaire d'un coup de feu si l'arme tombe en étant chargée ou bien lors de secousses est totalement exclu.

Un coup peut seulement partir par l'actionnement volontaire de la détente (26). Pour cela, le doigt de détente doit tout d'abord actionner la sûreté de la détente. Un déclenchement de coup n'est pas possible si l'on presse la détente de façon excentrique latéralement.

L'arrêtoir de la culasse (27) ainsi que **l'arrêtoir de magasin** (19) sont facilement manipulables avec la main qui effectue le tir.

La **poignée** (17) en matière synthétique avec les glissières en acier traité séduit par **ses dimensions idéales, l'angle de la poignée** et le **poids léger**.

L'arme a passé avec succès les tests les plus difficiles des unités spéciales de l'armée et de la police et est considéré par ces derniers comme une arme d'excellente qualité.

CARACTERISTICAS PRINCIPALES

El nuevo sistema de disparo «Safe-Action» ofrece al tirador la mejor posibilidad de tiro inmediato sin deber accionar seguros externos.

El percutor (5) queda después de cada tiro automáticamente parcialmente armado y completamente bloqueado.
El disparo involuntario por dejar caer el arma cargada o a causa de golpes es absolutamente imposible.

El disparo tan sólo puede producirse por accionamiento voluntario del gatillo (26). En esta ocasión, el dedo tiene que accionar primero el seguro del gatillo. Un disparo involuntario por accionamiento descentrado, lateral, del gatillo es imposible.

Resulta fácil el manejo del **resorte de cierre** (27) y del **retén del cargador** (19) con la mano que acciona el gatillo.

El **armazón** (17) en plástico con guías de acero templado impresiona por sus **dimensiones favorables**, el **ángulo ideal de empuñadura** y el **peso reducido**.

El arma fue aprobado en las pruebas más duras de cuerpos especiales de ejército y policía que lo denominaron un «producto de primera calidad».

TECHNISCHE DATEN		TECHNICAL DATA
Kaliber	9 x 19 mm (Para)	Calibre
Länge	188 mm	Length
Höhe mit Visier	131 mm	Height with sights
Breite	30 mm	Width
Visierlänge	165 mm	Length between sights
Lauflänge	114 mm	Barrel length
Laufprofil 6flächiges Profil mit Rechtsdrall		Barrel profile – hexagonal profile with right hand twist
Drall-Länge	250 mm	Length of twist
Magazinkapazität (Patronenanzahl)	17 Stk./rounds	Magazine capacity
Masse (Gewicht):		Mass (weight):
– ohne Magazin	620 g	– without magazine
– Magazin leer	41 g	– magazine empty
– Magazin voll	~ 250 g	– magazine full
Anfangsgeschwindigkeit (V_0)*	~ 360 m/sec	Muzzle velocity (V_n)*
Mündungsenergie (E_0)* * munitionsabhängig	~ 500 J	Muzzle energy (E_0) * depending on ammunition used
Abzugswiderstand bis zum Druckpunkt (spannen und entsichern)	~ 10N/5mm	Trigger pull/trigger slack travel (taking up tension and releasing safety)
Abzugswiderstand/Weg Druckpunkt bis Schußauslösung	~ 20–30N/2,5mm	Trigger pull/trigger travel up to discharge

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DONNEES TECHNIQUES		DATOS TECNICOS
Calibre	9 x 19 mm (para)	calibre
Longueur	188 mm	largo
Hauteur avec dispositif de visée	131 mm	altura con puntería
Largeur	30 mm	ancho
Longueur du dispositif de visée	165 mm	distancia entre miras
Longueur du canon	114 mm	largo del cañón
Profil du canon: hexagonal à pas de rayure vers la droite		perfil del cañón: perfil con seis macizos con rayado dextrórsum
Longueur du pas de la rayure	250 mm	paso del rayado
Capacité du magasin (nombre de cartouches)	17	capacidad del cargador (cartuchos)
Masse (poids):		masa (peso):
– sans magasin	620 g	– sin cargador
– magasin vide	41 g	– cargador sin cartuchos
– magasin plein	~ 250 g	– cargador lleno
Vitesse initiale (V_0)*	~ 360 m/sec	velocidad inicial (V_0)*
Energie initiale (E_0)*	~ 500 j	energía del proyectil en la boca (E_0)*
* en fonction des munitions		* según tipo de munición
Résistance de détente/course jusqu'au point de poussée (tendre et retirer la sûreté)	~ 10 N/5 mm	resistencia del disparador/carrera hasta el punto de espera (armar y quitar el seguro)
Résistance de détente/course du point de poussée jusqu'au tir	~ 20-30 N/2,5 mm	resistencia del disparador/carrera punto de espera hasta disparo

ZUBEHÖR:

- Pistolen-Box (dichtschließender Transport- u. Aufbewahrungsbehälter mit Versperrmöglichkeit)
- Reservemagazin
- Putzstock mit integriertem Dochthalter
- Reinigungsbürste
- Superleichtes Schnellziehholster (für verschiedene Trageweisen)
- 2 Kimmen (austauschbar, unterschiedliche Höhen 0,4 mm höher bzw. 0,4 mm niedriger als Normalkimme)

FUNKTION DER WAFFE

1. Zustand der Waffe: **geladen** d. h. – eine Patrone im Lauf, Schlagbolzen (5) teilgespannt und gesichert, Abzug (6) in vorderster Position. Mit dem Abzugfinger wird die im Abzug integrierte Abzugssicherung betätigt, um den Abzug voll durchziehen zu können.

2. Wird der Abzug bis zum Druckpunkt (Weg 5 mm) gezogen, ist die Waffe entsichert d.h. die Abzugstange liegt hinter der Sicherungsrampe, die Schlagbolzensicherung ist aufgehoben und der Schlagbolzen gespannt. Beim weiteren Zurückziehen (Durchziehen des Abzuges) gibt die Abzugstange über die Steuerfeder (24) den Schlagbolzen frei. Durch den Rückstoßimpuls bewegt sich das Verschlußstück (1) nach rückwärts. Dabei wird nach ca. 3 mm Rücklaufweg die Verriegelung zwischen Lauf (2) und Verschlußstück (1) gelöst, der Lauf schwenkt über den Verriegelungsblock (22) nach unten und wird in dieser Position gehalten. Das Verschlußstück bewegt sich allein bis in seine Endlage zurück. Während dieses Rücklaufes wird die Hülse vom Auszieher (11) aus dem Lauf gezogen und in weiterer Folge über den Ausstoßer (23) nach rechts oben ausgeworfen.

ACCESSORIES

- Pistol box (tight-closing box for transport and safe-keeping, with locking facility)
- Spare magazine
- Cleaning rod with integrated wadding holder
- Cleaning brush
- Super-light quick-draw holster (for different carrying formats)
- 2 rear sights (exchangeable, differing heights – 0.4 mm higher or 0.4 mm lower than normal rear sight)

FUNCTION OF THE WEAPON

1. State of the weapon: **loaded**, i.e., a round in the barrel, firing pin (5) partially tensioned and secured, trigger (6) in the foremost position. The trigger safety integrated in the trigger is actuated with the trigger finger in order to pull the trigger all the way.

2. When the trigger slack is taken up to the first pressure point (travel 5 mm), the weapon is released from safety, i.e. the trigger bar lies behind the safety ramp, the firing pin safety is raised, and the firing pin is under tension. As the trigger is pulled further back, the trigger bar releases the firing pin by means of the connector (24). The recoil impulse moves the slide (1) backwards. After about 3 mm movement to the rear, the locking action between the barrel (2) and the slide (1) will be released, the barrel swings downwards over the locking block (22) and is retained in this position. The slide moves back into its final position on its own. During this return travel, the cartridge is pulled out of the barrel by the extractor (11), and is then thrown out to the right via the ejector (23).

ACCESSOIRES

- Coffret (coffret de transport et de conservation hermétique avec possibilité de verrouillage)
- Magasin de réserve
- Tige de nettoyage avec support à mèche intégré
- Brosse de nettoyage
- Etui pour tir rapide superléger (pour différents ports d'arme)
- 2 mires (interchangeable, hauteurs différentes) plus haute ou plus basse de 0,4 mm qu'une mire normale

FONCTIONNEMENT DE L'ARME

1. Etat de l'arme: **chargé**, c.à.d. une cartouche dans le canon, percuteur (5) tendu partiellement et assuré, détente (6) en position la plus en avant. La sûreté de détente intégrée dans la détente est actionnée à l'aide du doigt de détente afin de pouvoir tirer entièrement la détente.

2. Lorsque la détente est tirée jusqu'au point de poussée (course 5 mm), la sûreté de l'arme est retirée, c.à.d. la tige de détente se trouve derrière la rampe de sûreté, la sûreté du percuteur est soulevée et le percuteur tendu. En tirant encore vers l'arrière (tension de la détente), la tige de détente libère le percuteur par l'intermédiaire du connecteur (24). Du fait de l'impulsion de recul, la culasse (1) se déplace vers l'arrière, ce qui déclenche après environ 3 mm de course de recul le verrouillage entre le canon (2) et la culasse (1). Le canon bascule vers le bas par l'intermédiaire du bloc de verrouillage (22) et sera maintenu dans cette position. La culasse se replace seule jusqu'à atteindre sa position finale. Durant cette course de retour, la cartouche est retirée du canon par l'extracteur (11) pour être ensuite éjectée en haut à droite par l'éjecteur (23).

ACCESORIOS:

- Caja-pistola (caja con cierre ermético para el transporte y para la conservación del arma; con posibilidad de cerrar con llave)
- cargador de reserva
- lavador con dispositivo porta-mechas integrado
- cepillo de limpieza
- pistolera extra-ligera que permite sacar rápidamente el arma (para varios modos de llevar la pistola)
- 2 brújulas (de recambio, con alturas diferentes (0,4 mm más y menos, respectivamente, de la brújula normal)

FUNCIONAMIENTO DEL ARMA

1. Estado del arma: **cargada**, es decir, un cartucho en el cañón, percutor (5) parcialmente armado y con seguro y el gatillo (6) en posición delantera. Con el dedo que apreta el gatillo será accionado contemporáneamente el seguro integrado del disparador, permitiéndo de tal manera el accionamiento completo del gatillo.

2. Apretando el gatillo hasta el punto de espera (carrera 5 mm), se quita el seguro del arma, es decir, la varilla se encuentra por detrás de la muesca de seguro, el seguro del percutor queda anulado y el percutor armado. Apretando más el gatillo (accionamiento completo), la varilla libera el percutor por medio de una muelle de accionamiento. El impulso de repulsión producido por el disparo hace retroceder la culata (1). Luego de una carrera de aprox. 3 mm, el cañón (2) se desengancha de la culata (1) y vira hacia abajo por medio de la pieza de bloqueo. En esta posición queda fijado, mientras que la culata sigue su movimiento de retroceso hasta alcanzar su posición final. Durante este retroceso de la culata, el extractor extrae el cartucho vacío el cual queda echado por el eyector.

Die im Verschlußstück befindliche Kulisse betätigt die Steuerfeder und trennt diese von der Abzugstange. Dadurch wird diese von der Abzugsfeder (25) angehoben und wieder in die Bahn der Schlagbolzennase gebracht.

3. Die Schließfeder bringt nun das Verschlußstück nach vorne.

Dabei wird:
- die Abzugstange durch den Schlagbolzen auf die Sicherungsrampe geschoben,
- die Schlagbolzensicherung in Eingriff gebracht,
- der Schlagbolzen teilgespannt,
- eine Patrone aus dem Magazin zugeführt und
- der Lauf mit dem Verschlußstück verriegelt.

Die Waffe ist wieder gesichert und schußbereit.
Nach Abgabe des letzten Schusses wird das Verschlußstück vom Verschlußfanghebel (27) in geöffneter Stellung gehalten.

The link piece in the slide actuates the connector and separates it from the trigger bar. This causes the trigger bar to be raised off the trigger spring (25) and to be brought back into the path of the firing pin nose.

3. The recoil spring now brings the slide forwards.

As this happens:
- The trigger bar is pushed onto the safety ramp by the firing pin,
- the firing pin safety is brought into engagement
- the firing pin is put under partial tension
- a round is passed out of the magazine, and
- the barrel is locked with the slide.

The weapon is again secured and ready to fire.
After the last round has been fired, the slide will be held in the open position by the slide stop lever (27).

BEDIENUNGSANLEITUNG
INSTRUCTIONS FOR USE
INSTRUCTIONS DE SERVICE
INSTRUCCIONES DE MANEJO

GLOCK 17 GLOCK 17

BEDIENUNGSANLEITUNG
INSTRUCTIONS FOR USE
INSTRUCTIONS DE SERVICE
INSTRUCCIONES DE MANEJO

GLOCK 17 GLOCK 17

La coulisse se trouvant dans la culasse actionne le connecteur et sépare ce dernier de la tige de détente grâce à quoi celle-ci sera soulevée par le ressort de détente (25) et de nouveau placée dans le cran du taquet du percuteur.

3. Le ressort récupérateur amène maintenant la culasse vers l'avant, ce qui entraîne:

   - que la tige de détente est poussée par le percuteur sur la rampe de sûreté,
   - que le percuteur est partiellement tendu
   - qu'une cartouche est amenée du magasin en position de feu et
   - que le canon est verrouillé avec la culasse.

   L'arme est de nouveau assurée et prêt à tirer.
   Après avoir tirer le dernier coup de feu, la culasse est maintenue en position ouverte par l'arrêtoir de culasse (27).

La colisa integrada en la culata acciona el muelle de accionamiento y lo separa de la varilla del disparador. Por consiguiente, ésta será levantada por el resorte del disparador (25) hasta alcanzar otra vez la carrera de la punta del percutor.

3. Ahora, el resorte de cierre empuja la culata a su posición delantera.

   Contemporáneamente se realizan los movimientos siguientes:
   - el percutor empuja la varilla a la muesca de seguro,
   - el percutor queda parcialmente armado
   - se empuja un cartucho del cargador a la recámara del cañón y
   - el cañón queda nuevamente trancado con la culata.
   - El arma queda con seguro y lista para el próximo disparo.

   Después de disparar el último cartucho, la culata es retenida en posición abierta por el retenedor de cierre (27).

EXPLOSIONSZEICHNUNG UND BESTANDTEILLISTE DER PISTOLE GLOCK 17

1 Verschlußstück
2 Lauf
3 Schließfeder
4 Schließfederführung
5 Schlagbolzen
6 Distanzhülse
7 Schlagbolzenfeder
8 Federteller
9 Schlagbolzensicherung
10 Feder zur Schlagbolzensicherung
11 Auszieher
12 Druckbolzen
13 Druckbolzenfeder
14 Federlager
15 Deckplatte zum Verschlußstück
16 Kimme
17 Griffstück
18 Feder zum Magazinhalter
19 Magazinhalter
20 Feder zum Verriegelungsschieber
21 Verriegelungsschieber
22 Verriegelungsblock
23 Steuerblock mit Ausstoßer
24 Steuerfeder
25 Abzugsfeder
26 Abzug mit Abzugstange
27 Verschlußfanghebel mit Feder
28 Abzugsachse
29 Stift zum Steuerblock
30 Magazinzubringer
31 Magazinfeder
32 Magazinboden
33 Magazinkörper

Exploded Drawing and Component Parts of the Pistol GLOCK 17

1 Slide
2 Barrel
3 Recoil spring
4 Recoil spring tube
5 Firing pin
6 Spacer sleeve
7 Firing pin spring
8 Spring cups
9 Firing pin safety
10 Firing pin safety spring
11 Extractor
12 Ejector depressor plunger
13 Ejector depressor plunger spring
14 Spring-loaded bearing
15 Slide cover plate
16 Rear sight
17 Receiver
18 Magazine catch spring
19 Magazine catch
20 Locking slide spring
21 Locking slide
22 Locking block
23 Trigger mechanism housing with extractor
24 Connector
25 Trigger spring
26 Trigger with trigger bar
27 Slide stop lever
28 Trigger bar
29 Locking block pin
30 Follower
31 Magazine spring
32 Magazine floor plate
33 Magazine tube

SCHEMA ECLATE ET LISTE DES PIECES DETACHEES DU PISTOLET GLOCK 17

1 Culasse
2 Canon
3 Ressort récupérateur
4 Tube de ressort récupérateur
5 Percuteur
6 Douille d'écartement
7 Ressort du percuteur
8 Coupelle de ressort
9 Sûreté du percuteur
10 Ressort pour la sûreté du percuteur
11 Extracteur
12 Boulon de pression
13 Ressort du boulon de pression
14 Cône (bride) de ressort
15 Plaque de protection pour la culasse
16 Mire
17 Poignée
18 Ressort pour l'arrêtoir du magasin
19 Arrêtoir du magasin
20 Ressort pour le curseur de verrouillage
21 Curseur de verrouillage
22 Bloc de verrouillage
23 Bloc de commande avec éjecteur
24 Connecteur
25 Ressort de détente
26 Détente avec tige de détente
27 Arrêtoir de culasse
28 Axe de détente
29 Goujon pour le bloc de commande
30 Dispositif d'amenée du magasin
31 Ressort du magasin
32 Socle du magasin
33 Magasin

DIBUJO EXPLOSIVO CON LISTA DE COMPONENTES DE LA PISTOLA GLOCK 17

1 Culata
2 Cañón
3 Resorte de cierre
4 Guía del resorte de cierre
5 Percutor
6 Manguito distanciador
7 Resorte del percutor
8 Platito de resorte
9 Seguro del percutor
10 Muelle del seguro del percutor
11 Extractor
12 Perno de presión
13 Muelle del perno de presión
14 Soporte de muelle
15 Placa cubierta de la culata
16 Brújula
17 Armazón
18 Muelle del retén del cargador
19 Retén del cargador
20 Muelle de la corredera de bloqueo
21 Corredera de bloqueo
22 Pieza de bloqueo
23 Unidad de accionamiento con eyector
24 Resorte de accionamiento
25 Resorte del disparador
26 Gatillo con varilla del disparador
27 Palanca de retención de la culata con resorte
28 Eje del disparador
29 Clavija de la unidad de accionamiento
30 Elevador de cartuchos
31 Muelle cargador
32 Fondo de cargador
33 Caja de cargador

SICHERUNGSEINRICHTUNGEN

Die Waffe weist **keine** außenliegenden, zusätzlich zu bedienenden Sicherungselemenete auf. Alle Sicherungs- bzw. Entsicherungsvorgänge laufen selbsttätig ab.

1. **ABZUGSSICHERUNG:**

   Sie ist im Abzug (26) als Hebel eingebaut und sperrt im unberührten Zustand den Weg des Abzugs nach hinten. Fällt die Waffe zu Boden oder wird der Abzug außermittig, seitlich gedrückt, so kann sich kein Schuß lösen. Diese Sicherung wird erst durch das Abziehen mit dem Abzugfinger gelöst. Dieser Umstand bietet **höchstmögliche Schußbereitschaft bei maximaler Sicherheit des Schützen.**

2. **SCHLAGBOLZENSICHERUNG:**
   In gesicherter Position ragt ein gefederter Bolzen (9) in die Ausnehmung des Schlagbolzens und blockiert diesen. Diese Sicherung wird nur dann aufgehoben, wenn der Abzug durchgezogen wird.

3. **SICHERUNGSFUNKTION DES STEUERBLOCKS:**
   Der Schlagbolzen (5) schiebt unter Wirkung der Schlagbolzenfeder (7) die Abzugstange auf die Sicherungsrampe. Eine Freigabe des Schlagbolzens ist in dieser Stellung ausgeschlossen.

SAFETY DEVICES

The weapon has **no** externally-located safety devices which need to be actuated separately. All the safety or safety-release devices function automatically.

1. **TRIGGER SAFETY:**
   This is incorporated into the trigger (26) in the form of a lever, and in the untouched state blocks the trigger from being moved backwards. If the weapon is allowed to drop, or if the trigger is subjected to an off-centre, lateral pressure, it is still impossible for a shot to be fired. This safety can only be released by the trigger being pulled by the trigger finger. This situation offers **maximum possible firing readiness combined with maximum safety for the handler.**

2. **FIRING PIN SAFETY:**
   In the secured position, a spring-loaded pin (9) projects into the firing pin cut-out, and blocks it. This safety is only released when the trigger is pulled right back.

3. **SAFETY FUNCTION OF THE TRIGGER MECHANISM HOUSING:**
   The firing pin (5) pushes the trigger bar onto the safety ramp under the influence of the firing pin spring (7). There is no possibility in this position of the firing pin being released.

DISPOSITIFS DE SURETE

L'arme ne possède **aucun** élément de sûreté extérieur devant être en plus manipulé. Tous les processus pour mettre et retirer les dispositifs de sûreté se déroulent automatiquement.

1. **SURETE DE LA DETENTE:**
   Elle est incorporée dans la détente (26) sous forme d'un levier et bloque la course de la détente vers l'arrière en état hors-service. Si l'arme tombe par terre ou bien si la détente est appuyée de façon excentrique latéralement, aucun coup de feu ne peut se déclencher. Cette sûreté ne sera enlevée qu'en la retirant avec le doigt de détente. Ceci permet une **disposition optimale pour un tir rapide avec une sécurité maximale du tireur.**

2. **SURETE DU PERCUTEUR:**
   En position de sûreté, un axe à ressort (9) dépasse dans le creux du percuteur et bloque ce dernier. Cette sûreté n'est ensuite enlevée que lorsque la détente est tirée.

3. **FONCTIONNEMENT DE LA SURETE DU BLOC DE COMMANDE**
   Le percuteur (5) pousse sous l'effet du ressort du percuteur (7) la tige de détente sur la rampe de sûreté. Une libération du percuteur est exclue dans cette position.

ELEMENTOS DE SEGURIDAD

El arma no tiene elementos de seguridad externos que habría que accionar separadamente. Todos los procesos de aseguramiento y de desbloqueo se efectúan automaticamente.

1. **Seguro del gatillo:**
   Está integrada en el gatillo (26) en forma de palanca y bloquea la carrera del gatillo no accionado hacia atrás. Si el arma cae al suelo, o en caso de accionamiento descentrado, lateral del gatillo no se puede producir el disparo. Este seguro es liberado sólo por el accionamiento del gatillo mediante el dedo del tirador. Por eso, este mecanismo garantiza **un tiro instantáneo y, a la vez, óptima seguridad del tirador.**

2. **Seguro del percutor**
   Con el seguro en función, un pestillo con muelle (9) encaja en la ranura del percutor para bloquearlo. Este seguro puede liberarse tan sólo por el accionamiento correcto del gatillo.

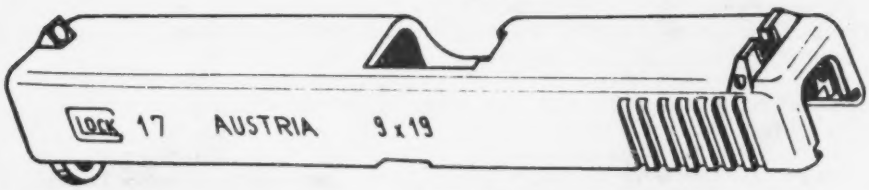
3. **Funcionamiento de la caja del mecanismo del disparador como dispositivo de seguro**
   Por efecto del resorte del percutor (7), el percutor (5) empuja la varilla del disparador en la muesca de seguro. En esta posición resulta imposible la liberación del percutor.

VISIERUNG

Diese besteht aus einer Kimme (16) und einem Korn, in die weiße Kontrastteile eingelegt sind. Die Kimme ist durch Verschieben horizontal verstellbar, für die Höhenverstellung sind 2 verschiedene Kimmenhöhen erhältlich (0,4 mm über bzw. 0,4 mm unter der Normalhöhe).

SIGHTS

These consist of a rear sight (16) and a foresight, in which white contrast elements are inserted. The rear sight is adjustable horizontally by displacement, while, for height adjustment, two different rear sight heights are available (0.4 mm above or 0.4 mm below the normal height).



LADEN UND SCHIESSEN

1. Das 17 Patronen fassende Magazin wird gefüllt, indem man jede einzelne Patrone von vorne, mit dem Patronenboden voraus gegen den Druck der Magazinfeder in das Magazin schiebt.
2. Einführen oder Einsetzen des Magazins in den Magazinschacht bis der Magazinhalter voll einrastet.
3. Mit der freien Hand das Verschlußstück zurückziehen und in der Endstellung vorschnellen lassen. **Der Abzugfinger der Schießhand liegt dabei außen am Abzugsbügel.** Die Waffe ist nun gesichert und schußbereit.
4. Nach der letzten Patrone bleibt das Verschlußstück offen. Leeres Magazin durch Drücken des Magazinhalters (19) aus der Waffe entfernen. Neues Magazin einsetzen und danach entweder den Verschlußfanghebel (27) nach unten drücken oder das Verschlußstück etwas zurückziehen und vorschnellen lassen. Die Waffe ist wieder gesichert und schußbereit.

LOADING AND FIRING

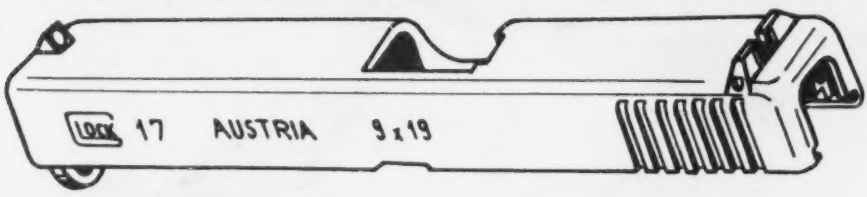
1. The 17-round magazine is filled by each individual round being pushed into the magazine from the front, with the base of the round being pressed down first against the pressure of the magazine spring.
2. Introduce or insert the magazine into the magazine shaft until the magazine catch engages fully.
3. Pull back the slide with the free hand, and allow it to spring forwards into the final position. **The trigger finger of the shooting hand remains outside the trigger guard.** The weapon is now secured and ready to fire.
4. After the last round has been fired, the slide remains open.
   Remove the empty magazine from the weapon by pushing the magazine catch (19). Insert a new magazine and then either push the slide stop lever (27) downwards, or pull the slide slightly backwards and allow it to spring forwards. The weapon is now again secured and ready to fire.

DISPOSITIF DE VISEE

Celui se compose d'une mire (16) et d'un guidon dans lesquelles sont insérés des éléments de contraste de couleur blanche. La mire est réglable en la déplaçant horizontalement, 2 différentes hauteurs de mire peuvent être obtenues pour le réglage en hauteur (0,4 mm plus haut ou plus bas que la hauteur normale).

ELEMENTOS DE PUNTERIA

Las miras consisten de brújula (16) y punto, ambas provistos de marcas de contraste blancas. La brújula permite el ajuste horizontal, para el ajuste en la elevación están a disposición dos alturas de brújulas de recambio (0,4 mm por encima y por debajo de la altura normal).



CHARGEMENT ET TIR

1. Le magasin comprenant 17 cartouches se remplit cartouche par cartouche par le devant en poussant avec le culot de la cartouche contre la pression exercée par le ressort dans le magasin.

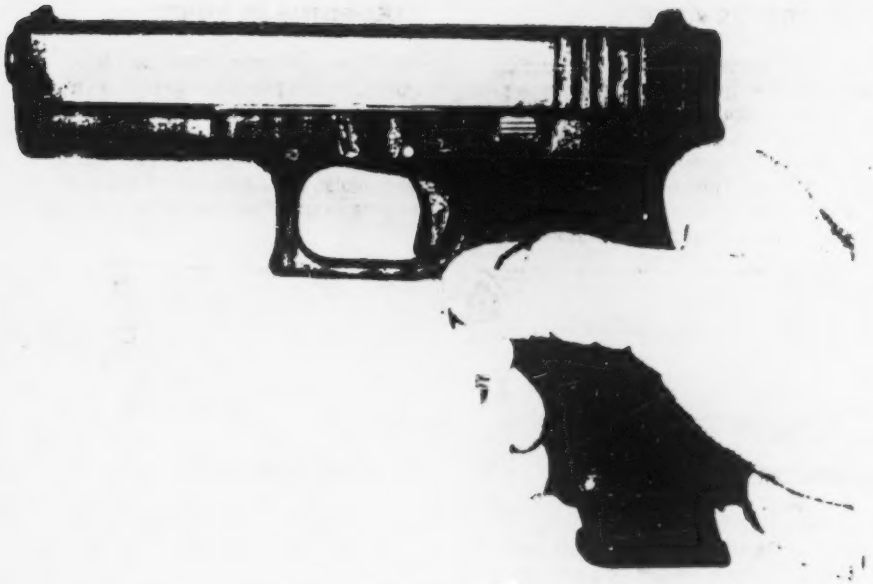
2. Introduire ou incorporer le magasin dans la crosse jusqu'à ce que l'arrêtoir du magasin soit entièrement encoché.

3. Tirer avec la main libre la culasse en arrière et laisser la se placer en position finale. **Le doigt de détente de la main devant tirer doit se trouver sur la tige de détente**. L'arme est maintenant assurée et prête à tirer.

4. La culasse reste ouverte après avoir tiré la dernière cartouche. Enlever le magasin de l'arme en pressant l'arrêtoir du magasin (19). Remettre un nouveau magasin, puis presser vers le bas l'arrêtoir de culasse (27) ou bien tirer en arrière la culasse et la laisser se mettre en position. L'arme est de nouveau assurée et prête à tirer.

CARGAR Y TIRAR

1. El cargador con capacidad para 17 cartuchos se rellena de manera siguiente: Poner el cartucho, con el fondo hacia atrás, en el elevador, presionarlo hacia abajo contra el efecto del resorte del cargador y correrlo hacia atrás en el cargador.
2. Encajar el cargador en la camisa del mismo hasta que quede completamente enclavado.
3. Con la mano libre, tirar la culata hacia atrás y soltarla para que vuelva a su posición inicial. **Durante este proceso, el dedo del tirador se encuentra en la parte externa del estribo del disparador**. Ahora, el arma está con seguro y lista para tirar.
4. Después de disparar el último cartucho del cargador, la culata queda abierta. Quitar el cargador vacio apretando el retén del cargador (19). Colocar el cargador nuevo, después ó accionar la palanca de retención de la culata (27) ó tirar la culata un poco hacia atrás y soltarla. El arma queda nuevamente con seguro y lista para tirar.



ENTLADEN

1. Magazin entfernen.
2. Verschlußstück (1) zurückziehen, um die im Lauf (2) befindliche Patrone auszuwerfen.
3. Prüfen, ob sich keine Patrone im Lauf befindet.
4. Vorschnellenlassen des Verschlußstückes und Abziehen des Abzuges, so daß dieser sich in abgezogener Position befindet.

UNLOADING

1. Remove magazine.
2. Pull slide (1) back to eject the round which is in the barrel (2).
3. Check to ensure that there is no round in the barrel.
4. Allow the slide to spring forwards and pull the trigger into the full pulled position.

DECHARGEMENT

1. Enlever le magasin
2. Tirer en arrière la culasse (1) afin d'éjecter la cartouche se trouvant dans le canon (2).
3. Vérifier qu'aucune cartouche ne se trouve dans le canon.
4. Faire avancer la culasse et tirer la détente de façon à ce que celle-ci se trouve en position de détente.

DESCARGA

1. Quitar el cargador.
2. Tirar la culata (1) hacia atrás, para echar el cartucho que se encuentra en el cañón (2).
3. Verificar que ya no se encuentre ningun cartucho en el cañón.
4. Soltar la culata y accionar el gatillo

AUSEINANDERNEHMEN UND ZUSAMMENSETZEN

1. Für die übliche Reinigung der Waffe genügt ein Auseinandernehmen in die HAUPTBESTANDTEILE
   - Verschlußstück (1)
   - Lauf (2)
   - Schließfeder (3) mit Schließfederführung (4)
   - Griffstück (17)
   - Magazin

2. Zur Schonung und Reinigung der Waffe empfiehlt sich die Verwendung der im Zubehör vorhandenen Reinigungsgeräte, sowie die im Fachhandel erhältlichen Reinigungslappen und Spezial-Waffenfette oder Öle.

3. **Das Auseinandernehmen der GLOCK 17 in die Hauptteile** ist in nachstehender Reihenfolge durchzuführen:
   - Abnehmen des Magazins
   - Überprüfen der Sicherheit (ob keine Patrone im Lauf)
   - Abzug durchziehen
   - Verschlußstück vom Griffstück abnehmen
   - Lauf aus Verschlußstück herausnehmen.

   Vor einem weiteren Auseinandernehmen des Verschlußstückes und des Griffstückes wird auf die Sicherheits- und Garantiehinweise verwiesen.

DISMANTLING AND REASSEMBLING

1. For normal cleaning, it is sufficient to dismantle the weapon into its MAIN COMPONENT PARTS
   - slide (1)
   - barrel (2)
   - recoil spring (3) with recoil spring guide (4)
   - receiver (17)
   - magazine

2. For maintaining and cleaning the weapon, it is recommended that the cleaning equipment provided as part of the accessories be used, together with the cleaning wadding and special gun greases and oils available from specialist dealers.

3. **The GLOCK 17 is stripped into its main component parts** in the following order:
   - removal of the magazine
   - checking safety (ensuring there is no round in the barrel)
   - pulling trigger right back
   - removing slide from receiver
   - removing barrel from slide.

   Before the slide and the receiver are dismantled any further, attention is drawn to the safety and guarantee conditions.

DEMONTAGE ET REMONTAGE

1. Un démontage des ELEMENTS PRINCIPAUX de l'arme suffit pour un nettoyage courant
   - Culasse (1)
   - Canon (2)
   - Ressort récupérateur (3) avec tube de ressort récupérateur (4)
   - Poignée (17)
   - Magasin

2. Pour le bon entretien et le nettoyage de l'arme, il est recommandé d'utiliser les outils de nettoyage compris dans les accessoires ainsi que des chiffons de nettoyage et des graisses et huiles spéciales en vente dans les magasins spécialisés (armurier).

3. **Le démontage des éléments principaux du pistolet GLOCK 17** doit être effectué dans l'ordre de succession suivant:
   - enlever le magasin
   - vérifier la sécurité (si aucune cartouche se trouve dans le canon)
   - retirer la détente
   - enlever la culasse de la poignée
   - retirer le canon de la culasse.

   Avant de démonter la culasse et la poignée, se référer aux indications de sécurité et de garantie.

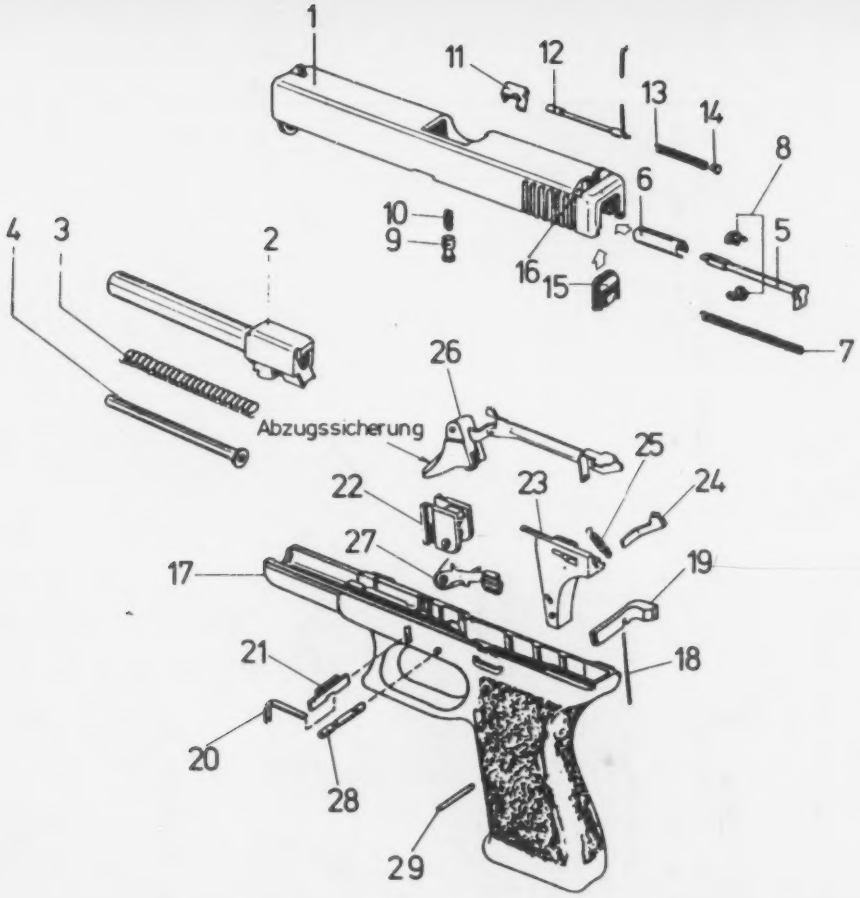
DESMONTAJE Y MONTAJE DEL ARMA

1. Para la limpieza normal del arma basta el desmontaje de los **elementos principales**
   - Culata (1)
   - Cañón (2)
   - Resorte de cierre (3) con guía de la misma (4)
   - Armazón (17)
   - Cargador.

2. Para la conservación y la limpieza del arma se recomienda el uso de los útiles de limpieza contenidos en los accesorios, y de los trapos de limpieza y las grasas o aceites especiales para armas disponibles en el comercio especializado.

3. **En el desmontaje de los elementos principales de la GLOCK 17** debe observarse el orden siguiente:
   - Quitar el cargador
   - Verificar la seguridad (si no quedan cartuchos en el cañón)
   - Accionar el gatillo
   - Retirar la culata del armazón
   - Retirar el cañón de la culata.

   Antes de continuar el desmontaje de la culata y del armazón hay que observar las instrucciones de seguridad y de garantía.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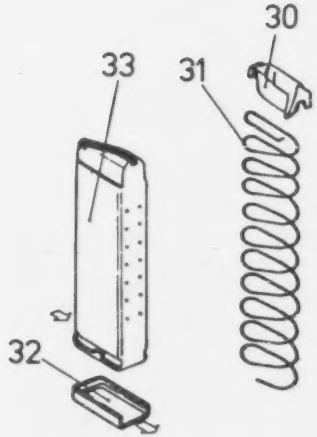
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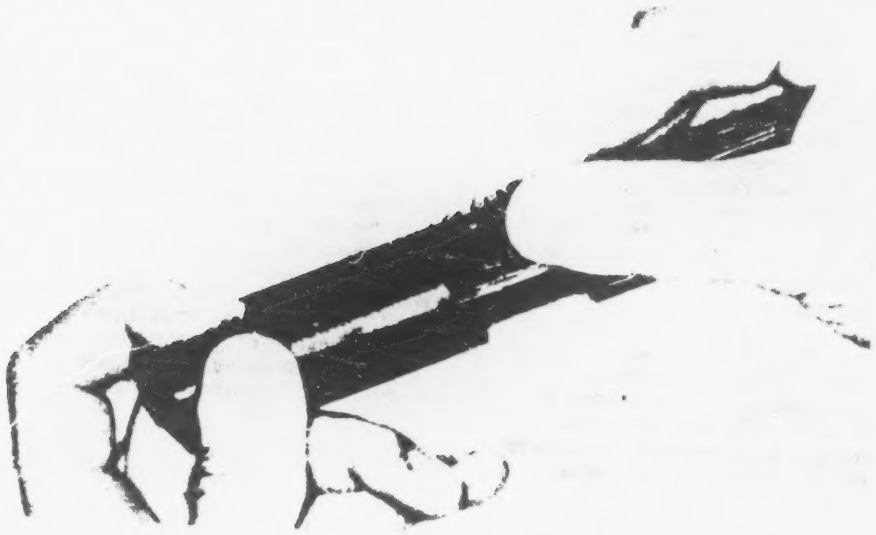
4. **Das Abnehmen des Verschlußstückes (s.Abb.)**
ist wie folgt durchzuführen
- Pistole mit der rechten oder linken Hand so erfassen, daß 4 Finger über dem Verschlußstück zu liegen kommen und der Daumen sich an der Rückseite des Griffstückes abstützt.
- Verschlußstück (1) mit den Fingern etwa 3 mm zurückziehen.
- Verriegelungsschieber (21) mit Daumen und Zeigefinger der rechten oder linken Hand nach unten ziehen.
- Verschlußstück nach vorne schieben und vom Griffstück trennen.
Wird das Verschlußstück zu weit (mehr als 3 mm) zurückgezogen, geht der Abzug in vorderste Position. Das Verschlußstück läßt sich nicht vom Griffstück (17) abziehen. Keine Gewalt anwenden. Es muß zuerst der Abzug durchgezogen werden.

4. **Removal of the slide (see illustration)**
is carried out as follows:
- Grasp the pistol in the right or left hand in such a way that four fingers rest over the slide and the thumb rests on the rear side of the receiver.
- Using the fingers, draw back the slide (1) about 3 mm.
- Pull the locking slide spring (21) downwards with the thumb and index finger of the right or left hand.
- Push the slide forwards and separate it from the receiver.

If the slide is drawn back too far (more than 3 mm), the trigger will move to the foremost position. The slide will then **not** separate from the receiver (17). **Do not use force.** The trigger must first be pulled all the way back.

4. **Le démontage de la culasse** (voir figure) doit être effectué comme suit:
   - prendre le pistolet avec la main gauche ou droite de façon à ce que 4 doigts viennent se placer sur la culasse, le pouce venant se placer quant à lui sur le côté inférieur de la poignée;
   - tirer la culasse (1) vers l'arrière d'environ 3 mm;
   - tirer le curseur de verrouillage (21) avec le pouce et l'index de la main gauche ou droite vers le bas.
   - pousser la culasse vers l'avant et la séparer de la poignée.
     Si la culasse est tirée trop loin en arrière (plus de 3 mm), la détente se met en position la plus en avant. La culasse **ne** peut **pas** être retirée de la poignée (17). **Ne pas agir avec force**. La détente doit être retirée tout d'abord.

4. **Retirar la culata** (véase fig.) de manera siguiente:
   - Tomar la pistola con la mano derecha o izquierda de tal manera que cuatro dedos se encuentran por encima de la culata y el pulgar se apoya en la parte trasera del armazón.
   - Tirar la culata (1) con los dedos unos 3 mm hacia atrás.
   - Tirar la corredera de bloqueo (21) con el pulgar y el índice de la mano derecha o izquierda hacia abajo.
   - Empujar la culata hacia adelante y retirarla del armazón.
     Si se ha tirado la culata demasiado hacia atrás (más de 3 mm), el gatillo queda en su posición delantera. Entonces la culata no se deja separar del armazón (17). **No se debe usar la violencia**. Hay que accionar el gatillo antes de continuar el desmontaje.



5. **Das Herausnehmen des Laufes**

ist wie folgt durchzuführen:

- Schließfederführung (4) mit dem Daumen etwas nach vorne drücken und anheben,
  Beachte: Federdruck!
- Schließfederführung mit Schließfeder aus Verschlußstück nehmen (s.Abb.) und erforderlichenfalls trennen.
- Lauf an der Laufverriegelung erfassen, etwas nach vorne schieben, anheben und nach hinten oben aus dem Verschlußstück ziehen

Das Zusammensetzen der GLOCK 17 erfolgt in umgekehrter Reihenfolge.

SICHERHEITS- UND GARANTIEHINWEISE

1. Wird diese Waffe durch Erwerber bzw. dritte Personen weiter auseinandergenommen als in der vorliegenden Bedienungsanleitung angeführt und treten dabei durch unsachgemäße Behandlung oder unvollständigen Zusammenbau Beschädigungen bzw. Funktionsstörungen der Waffe auf, und in deren Folge ein Ausschalten der Sicherungseinrichtungen ein, verliert der Erwerber **jeden Anspruch** auf Gewährleistung bei dadurch entstandenen Personen- und Sachschaden.

2. Jede Veränderung an der Grundkonstruktion der Waffe, insbesonders durch Ausschalten der Sicherungseinrichtungen ist aus Sicherheitsgründen verboten und eine Benützung dieser Waffe untersagt.

5. **Removal of the barrel**
is carried out as follows:

- Push the recoil spring tube (4) somewhat forwards with the thumb, and raise it,
  Caution: it is under spring pressure!
- Take recoil spring tube with recoil spring out of the slide (see illustration) and separate them if necessary.
- Grasp the barrel on the barrel locking piece, push it slightly forwards, raise it, and pull it backwards out of the slide.

Reassembling the GLOCK 17 is carried out in the reverse order to the above.

SAFETY AND GUARANTEE INSTRUCTIONS

1. If the weapon is dismantled by the purchaser or by third parties further than described in these user's instruction . and if, as a result of inappropriate handling or incomplete reassembly, damage or malfunctions are caused, as a result of which the safety devices are rendered ineffective, then the purchaser shall forfeit **any claim** to guarantee against damages thereby incurred to persons or property.

2. Any change to the basic construction of the weapon, in particular by the circumvention of the safety devices, is forbidden on safety grounds, and precludes the use of the weapon.

5. **Le démontage du canon**
   s'effectue de la façon suivante:
   - presser le tube de ressort récupérateur (4) vers l'avant et soulever;
     Observation: tension du ressort!
   - enlever le tube de ressort récupérateur avec le ressort récupérateur de la culasse (voir figure) et les séparer en cas de nécessité;
   - prendre le canon au niveau du verrouillage, pousser légèrement vers l'avant, soulever et tirer vers l'arrière par le haut de la culasse

Le remontage du pistolet GLOCK 17
s'effectue dans l'ordre de succession inverse.

INDICATIONS DE SECURITE ET DE GARANTIE

1. Si cette arme est démontée par l'acquéreur ou une tierce personne comme indiquée dans les instructions de service et si à cette occasion l'arme est endommagée ou des problèmes surviennent dans son fonctionnement à la suite d'une manipulation non conforme ou d'un montage incomplet, dont les conséquences seraient une mise hors fonction des dispositifs de sûreté, l'acquéreur perd tout **droit de réclamation** au titre de la garantie pour tout dommage survenu à l'encontre de personnes ou matériel.

2. Toute modification en ce qui concerne la structure de base de l'arme, en particulier par la mise hors fonction des dispositifs de sûreté est strictement interdite pour des raisons de sécurité, l'usage de l'arme étant dans ces conditions prohibé.

5. **Retirar el cañón**
   de manera siguiente:
   - Empujar el perno del resorte de cierre ligeramente hacia adelante y levantarlo.
     Atención a la fuerza del resorte!
   - Retirar la caja del resorte de cierre con el resorte de la culata (véase figura) y separar estos elementos, si está necesario.
   - tomar el cañón en la pieza de bloqueo, empujarlo ligeramente hacia adelante, levantarlo y tirarlo fuera de la culata hacia atrás y hacia arriba

El montaje de la pistola GLOCK 17
se hace en orden inverso.

INSTRUCCIONES DE SEGURIDAD Y DE GARANTIA

1. Si el comprador o terceros desmontan esta arma más allá de las instrucciones contenidas de este manual de manera que resulten de manejo impropio o de montaje deficiente daños o defectos de funcionamiento del arma que llevan al desbloqueo de los seguros, el comprador pierde **todo derecho a prestaciones de garantía** en el caso de eventuales daños de personas o de objetos originados por los defectos así provocados.

2. Por razones de seguridad se prohibe estrictamente cada modificación de la construcción básica del arma, particularmente la puesta fuera servicio de los seguros; el uso del arma así modificada queda también estrictamente prohibido.

3. Folgende Tätigkeiten sind an der Waffe **nicht** zulässig, da sie zu Beschädigungen führen können:

- Bei ungeladener Waffe, aber auch bei abgenommenem Verschlußstück (1) darf der Abzug (26) **nicht** von Hand in die vorderste Position gebracht und betätigt werden. Das Vorbringen des Abzuges in die vorderste Position **darf nur** durch Zurückschieben des Verschlußstückes (ca. 15 mm oder mehr) erfolgen.
- Bei abgenommenem Verschlußstück ist das Vorschnellenlassen des Schlagbolzens (5) von Hand nicht gestattet, weil dadurch eine Beschädigung der Schlagbolzensicherung (9) eintreten kann.
- Die in der Deckplatte (15) zum Verschlußstück befindliche Stahleinlage darf nicht entfernt werden.

4. Folgende Sicherheitskontrollen sind in regelmäßigen Abständen bzw. vor dem Waffengebrauch durchzuführen:
   a) Prüfen der Funktion der Abzugssicherung – ohne Patrone! Bei Nichtbetätigung der Abzugssicherung muß der Abzug (26) blockiert sein.
   b) Bei abgenommenem Verschlußstück und ausgebautem Lauf ist der Schlagbolzen von Hand zuerst an der Schlagbolzennase ca. 5 mm zurückzuziehen und danach wieder nach vor zu schieben. Die Schlagbolzenspitze darf dabei nicht aus dem Schlitz des Verschlußstückes austreten.

5. Für den Verschuß unsachgemäß gefertigter bzw. unsachgemäß laborierter Munition wird keinerlei Haftung übernommen.

   Bei Nichtbeachtung angeführter Hinweise ist jede Haftung ausgeschlossen.

3. The following actions are **not** permitted on the weapon, since they could lead to damage:

- With an unloaded weapon, or with the slide (1) removed, the trigger (26) may **not** be manually brought into the foremost position and actuated. The trigger **may only** be brought into the foremost position by pushing back the slide (approx. 15 mm or more).
- With the slide removed, it is not permitted for the firing pin (5) to be sprung forwards by hand, since this could damage the firing pin safety (9).
- The steel insert located in the cover plate (15) to the slide must not be removed.

4. The following safety checks are to be carried out at regular intervals and before the weapon is used:
   a) Test of the trigger safety function without cartidges! The trigger will be blocked if the trigger safety ist not actuated.
   b) With the slide removed and the barrel dismantled, the firing pin is first to be drawn back manually by the firing pin nose about 5 mm and then eased forwards again. The tip of the firing pin must not project from the slot in the slide.

5) No liability whatever can be accepted if inexpertly manufactured or inexpertly filled ammunition is used.

   All liability whatever is excluded in the event of these instructions not being observed.

3. Les manipulations suivantes de l'arme **ne** sont **pas** permises dans la mesure où elles peuvent conduire à d'éventuels dégats:
   - la détente (26) ne doit pas être amenée dans sa position la plus en avant et actionnée lorsque l'arme est déchargée mais aussi lorsque la culasse est (1) enlevée. Le fait de placer la détente dans sa position la plus en avant doit **seulement** avoir lieu en poussant la culasse en arrière (d'environ 15 mm ou plus).
   - Lorsque la culasse est enlevée, le fait de mettre en position le percuteur (5) à la main n'est pas autorisé dans la mesure où un endommagement du dispositif de sûreté du percuteur (9) peut se produire.
   - La garniture en acier se trouvant dans la plaque de protection (15) à la culasse ne doit pas être enlevée.
4. Les contrôles de sécurité suivants doivent être effectués à intervalles réguliers et avant que l'arme soit utilisée:
   a) Vérification du fonctionnement du dispositif de la sûreté de la détente – sans cartouche!
   b) Lorsque le dispositif de sûreté de la détente n'est pas actionné, la détente (26) doit être bloquée.
5. Nous nous dégageons de toute responsabilité en cas de tir avec des munitions de fabrication non conforme ou qui sont remplies de façon non conforme.

   Si l'indication indiquée **n'est pas respectée, nous nous dégageons de toute responsabilité**.

3. No se admiten las operaciones siguientes con el arma, ya que podrían dar lugar a daños:
   - Con el arma descargada y la culata (1) retirada, el gatillo (26) no debe empujarse a mano en la posición delantera ni accionarse. El gatillo debe empujarse en la posición delantera **sólo** tirando la culata hacia atrás (por aprox. 15 mm o más).
   - Con la culata retirada no se permite soltar el percutor a mano por el riesgo de estropear así el seguro del percutor (9).
   - No se permite retirar la guarnición de acero que se encuentra en placa cubierta (15) de la culata.
4. Hay que efectuar periódicamente y antes de emplear el arma los controles siguientes:
   a) Control del funcionamiento del seguro del gatillo – sin cartucho! Si no se acciona el seguro, el gatillo (26) debe quedar bloqueado.
   b) Con la culata y el cañón desmontados, tirar con la mano el percutor unos 5 mm hacia atrás y después empujarlo otra vez hacia adelante. La punta del percutor no debe salir de la ranura de la culata.
5. Queda excluida toda responsabilidad si se emplean munición de fabricación o inadecuada o de carga inadecuada.

   Además, queda excluida toda responsabilidad si no se observan las instrucciones mencionadas.

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NEWS BULLETIN

JANUARY 22, 1986

FROM: GASTON GLOCK
TO: PRESS RELEASES BY WASHINGTON POST, MR. J. ANDERSON,

GLOCK GES M B H, AUSTRIA, IS THE ORIGINAL INVENTOR AND MANUFACTURER OF THE NEW GLOCK 17, 9MM SEMIAUTOMATIC PISTOL, HEREBY DECLARES AND CONFIRMS THE FOLLOWING:

A) WITH REFERENCE TO THE A.M. PRESS RELEASE BY WASHINGTON POST:
BEFORE W. POST HAS ISSUED THE ARTICLE IN QUESTION, MR. ANDERSON HAD PHONED GLOCK, ASKING FOR GLOCK'S STATEMENT IN ADVANCE. ALTHOUGH GLOCK HAS TRULY GIVEN EXACTLY SUCH STATEMENT AS IS REPEATED HEREIN, THE ACTUAL PRINTED ARTICLE (AND THE INFORMATION DISTRIBUTED WORLDWIDE THROUGH ALL MAJOR NEWS AGENCIES) HAS DISREGARDED GLOCK'S STATEMENTS, AND HAS REFLECTED OBVIOUSLY THE ORIGINAL OPINION OF THE JOURNALISTS ONLY.
GLOCK DEEPLY REGRETS THAT THE U.S. AND THE WORLD PUBLIC HAVE, THEREFORE, BEEN MISLEAD.

B) WITH REFERENCE TO SALES TO AND/OR SALES DISCUSSIONS WITH, LIBYA:

- GLOCK HAS, SINCE THE TIME OF ITS INCORPORATION IN 1963, NEVER SOLD ANY OF GLOCK'S PRODUCTS TO LIBYA, NEITHER DIRECTLY NOR INDIRECTLY, AND
- GLOCK HAS NEVER BEEN REQUESTED NOR INVITED BY ANY LIBYAN AUTHORITY OR INDIVIDUAL, TO MAKE ANY PRICE OFFER FOR GLOCK'S PRODUCTS AND, THEREFORE, GLOCK HAS NEVER SUBMITTED ANY SUCH OFFER, AND
- NO MEMBER OF GLOCK'S MANAGEMENT AND SALES STAFF HAS EVER IN HIS LIFE VISITED LIBYA, AND
- THE ABOVE STATEMENTS REFER TO THE PAST AND PRESENT, THAT MEANS, THERE ARE ABSOLUTELY NO CONTACTS, DISCUSSIONS OR ANY OTHER ACTIVITIES WITH ANY LIBYAN AUTHORITY OR INDIVIDUAL AND GLOCK HAS NO KNOWLEDGE WHATSOEVER, THAT ANY CONTACTS, DISCUSSIONS, OR OTHER ACTIVITIES ARE PLANNED BY EITHER SIDE FOR THE FUTURE.
- AUSTRIAN APPLICABLE EXPORT REGULATIONS REQUIRE AN EXPORT PERMIT FOR ANY EXPORTATION OF FIREARMS, REGARDLESS OF THE DESTINATION. IN CASE OF INTENDED EXPORATION TO COUNTRIES THAT ARE IN WAR OR WARLIKE CONDITIONS OR IF SUCH EXPORATION WOULD ENDANGER AUSTRIA'S NEUTRALITY, SUCH PERMIT IS NOT GRANTED. ANYONE MAY INVESTIGATE WITH THE AUSTRIAN AUTHORITIES THAT GLOCK HAS NEVER APPLIED FOR EXPORT PERMIT TO LIBYA.

-ALSO ALL TRANSIT DESTINATIONS IN EUROPE REQUIRE COPY OF THE AUSTRIAN EXPORT PERMIT, AS WELL AS THE IMPORT PERMIT OF THE DESTINATION COUNTRY. FOR SALES TO U.S.A.E.G., GLOCK HAS TO FILE THE U.S. IMPORT PERMIT WITH THE BLEGIAN AUTHORITIES AT BRUSSELS, WHEREUPON THE MINISTRY WILL ISSUE TRANSIT PERMIT AFTER ABOUT 12 DAYS.

D) WITH REFERENCE TO AIRPORT SECURITY:

-BEFORE THE GLOCK 17 COULD BE SOLD EVEN WITHIN AUSTRIA, STARTING FROM 1983, A TEST AT VIENNA INTERNATIONAL AIRPORT WAS PERFORMED, UNDER SUPERVISION OF OFFICIAL SECURITY SPECIALISTS. IT WAS CLEARLY STATED, THAT BOTH, SCANNERS AND DETECTORS, CAN IDENTIFY THE GLOCK 17 WHICH CONSISTS OF 83% OF STEEL ONLY 17% OF ITS MASS IS SYNTHETIC MATERIAL. SUCH TESTS WERE REPEATED RECENTLY AT VIENNA AIRPORT BY "TIME"MAGAZINE, REPORTEDLY WITH THE SAME RESULT (DATE: JAN. 20TH, 1986).
PHOTOS WERE TAKEN AT THAT OCCASION.
AS, TO OUR KNOWLEDGE, IN NO CASE OF HIJACKING, OR AIRPORT TERRORISM SO FAR, WAS A GLOCK INVOLVED (BUT OTHER GUNS HAVE BEEN INVOLVED), THE PRINCIPAL AND SPECIFIC PROBLEM OF AIRPORT SECURITY, ALTHOUGH IT IS A VERY SERIOUS ONE, IS IN NO WAY PARTICULARY LINKED WITH THE GLOCK 17.
-SINCE THE GLOCK 17 HAS BEEN NATO-APPROVED AND ADOPED BY THE FIRST NATO COUNTRY IN 1985 AS THE STANDARD SIDE-ARM AND OTHER MAJOR CUSTOMERS, AS THE AUSTRIAN ARMED FORCES AND POLICE AND VARIOUS FAMOUS ANTITERROR-UNITS WHICH HAVE CONFIRMED ITS SUPERIORTIY IN VARIOUS AREAS, THE GLOCK 17 IS CONSIDERED ONE OF THE MOST EFFICIENT MEANS FOR MODERN POLICE UNITS IN THE FREE WORLD TO FIGHT TERRORISM IN OUR DAYS.

Mr. HIGGINS. Here are the technical specifications on the Glock, and you can see what it looks like. It holds 17 rounds. The weapon is 83 percent steel by mass. We have provided this weapon to the FAA and to the Secret Service to be run through both magnetometers and x-ray machines, and they are detectable. So the Glock is not a problem.

If you are looking for early warning systems, perhaps the fact that 17 percent of it is not steel may be an early indication that there will be a trend sometime in the future, to move toward more plastic or ceramic parts. This may serve as an early warning.

But the Glock itself meets the sporting purpose criteria that we look for before we will allow something to be imported, and it is detectable.

Mr. SKEEN. Seventeen percent metal by——

Mr. HIGGINS. Eighty-three percent metal by volume mass.

Mr. SKEEN. It has only two metal parts does it not?

Mr. MCGUIRE. It is a little more than that. While we do not consider the configuration of this weapon to be a significant problem to us, there are some areas that we do consider to be significant problems in the conversion of machine guns.

And I would like offer you the opportunity in an executive session to give you a detailed briefing on the Glock as well as the other areas that we consider to be more significant problems to us in law enforcement.

Mr. SKEEN. We would appreciate that.

That is all the questions I have, and I thank you very much.

Mr. ROYBAL. Mr. Akaka.

Mr. AKAKA. Thank you very much, Mr. Chairman.

Mr. Higgins and your staff, I want to thank the committee for the time that this Committee spends in Hawaii in January.

Mr. HIGGINS. I wish I could.

Mr. AKAKA. Your people out there did a great job.

Mr. SKEEN. We would like to add our thanks. They were outstanding.

Mr. HIGGINS. Thank you.

Mr. AKAKA. I also for the record want to say thank you to the Chairman and to members of the Committee who went out to Hawaii.

Mr. COLEMAN. Somebody had to do it.

[Laughter].

Mr. AKAKA. I would like to invite you all to hold some meetings out there and to get briefings from the several agencies there.

But I felt that it was worthwhile for all of us, and I want to thank the ATF people too and members of this Committee.

MC CLURE-VOLKMER BILL

Of interest right now and in the papers is the issue of handguns and the McClure-Volkmer bill. We have been reading about the position that the Attorney General has taken.

And my question is whether he is speaking for you or whether you are in the same position as he is on that.

Mr. HIGGINS. He is not speaking for me.

ATF is confident that the McClure-Volkmer legislation is a reasonable balance between the needs of law enforcement and the rights of citizens, and therefore we fully support it. Whatever the final outcome, ATF will enforce the law as effectively as we can within existing resources. But the paper has indicated that there is some division between what Justice, Treasury and ATF believe on that bill in terms of supporting it.

But, for the record, and it did not come out in the Washington Post article, there is no disagreement. We do support that bill. ATF and I think maybe the reason it got out of proportion is that over the better part of two years, we have been providing technical analysis of various parts of the bill, both when it was first introduced and then when amendments were made, we provided the analyses and we identified potential problems. Some were corrected, some things were changed, others were not—but it was simply a compromise process.

We think that we were given a fair opportunity to affect the direction of that bill. By providing that advice, we do not want to even give the impression that we are poor losers because not everything that we suggested was done. That is simply the way the process works.

And we do support it, and there is no disagreement in spite of what we might read. We are all for it.

Mr. AKAKA. So you are telling me that you are for the McClure-Volkmer bill.

Then you would be in favor of securing a discharge petition to bring the bill on the floor?

Mr. HIGGINS. Mr. Queen may want to speak to that. But my assessment of the Administration's position is they support the discharge petition. But I cannot speak for them.

Mr. QUEEN. The mechanics of how one brings it up to the floor for the vote is obviously best known and probably only understood by Members of the Congress.

[Laughter].

Mr. SKEEN. It has come to serious stuff.

[Laughter].

That was a very prudent comment.

[Laughter].

Mr. AKAKA. We are also aware that your agency has prepared a memorandum criticizing 13 aspects of that McClure—Volkmer bill.

Without taking time, may I ask you to submit those criticisms for the record?

Mr. HIGGINS. We certainly will.

And for the record that is a memorandum from me to Mr. Keating who is my boss, and it was done to update him as to what arguments will be made on both sides of the bill and we will supply that for you. I think everybody else has it by now.

[The information follows:]

DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
WASHINGTON, D.C. 20226

February 10, 1986

CC-34,270 FE:SRR

MEMORANDUM TO: Assistant Secretary
(Enforcement and Operations)

FROM: Director

SUBJECT: S. 49, The "Firearms Owners Protection Act"

As you requested at the Heads of Bureaus' meeting, I have prepared a memorandum giving our assessment of the strengths and weaknesses of S. 49 (Firearms Owners Protection Act) from an administrative and law enforcement perspective. We provided most of these same comments to the Department when the bill was being considered in the Senate; and, as you can see, some of our concerns were accepted while others were rejected. As the agency responsible for enforcing the Gun Control Act of 1968, a fair hearing of our concerns was probably the most we could expect. We obviously hoped our recommendations would have resulted in more changes than ultimately occurred.

Positive Aspects of S. 49

1. Ammunition Licensing and Recordkeeping. The bill would eliminate dealers, pawnbrokers and collectors in ammunition only from the Gun Control Act's licensing provisions. However, importers and manufacturers of ammunition would continue to be licensed. In addition, all recordkeeping provisions concerning ammunition would be repealed. The Bureau and the Department have recognized that current recordkeeping requirements for ammunition have no substantial law enforcement value. In addition, their elimination would remove an unnecessary recordkeeping burden from licensees. Felons and other proscribed persons would still be prohibited from transporting or receiving ammunition in commerce.

2. Sales to Prohibited Persons. The bill makes it unlawful for any person, not only licensees, to sell or otherwise dispose of firearms to certain prohibited categories of persons, e.g., a convicted felon. Under existing law it is only unlawful for a licensee to sell or otherwise dispose of firearms knowing or having reasonable cause to believe that such a person is in a prohibited category. This proposal would close an existing loophole whereby qualified purchasers have acquired firearms from licensees on behalf of prohibited persons.

3. Repeal of Certain Provisions of Title VII of the Omnibus Crime Control and Safe Streets Act of 1968. The bill would repeal most of Title VII and incorporate its provisions into the Gun Control Act. Thus, all provisions of Federal firearms laws imposing disabilities on felons and other prohibited persons would be combined in the GCA and existing inconsistencies between Title VII and the GCA would be eliminated. The Armed Career Criminal Act, imposing mandatory penalties based upon previous robbery or burglary convictions, would be retained in Title VII. Both ATF and the Department have supported legislation of this nature in the past.

4. Gun Shows. The bill would permit licensed importers, manufacturers and dealers to conduct business temporarily at locations other than that specified on their license, within the same State, pursuant to regulations issued by the Secretary. This provision is similar to regulations recently promulgated which allow licensees to conduct business at gun shows if the gun show is located in the same State as that specified on the license. See 27 C.F.R. § 178.100. The bill would remove any doubt concerning the statutory validity of such regulations.

5. Importation of Certain "Saturday Nite Special" Parts. Current law prohibits, among other things, the importation of firearms, including firearms frames or receivers, not particularly suitable for or readily adaptable to sporting purposes. Generally, easily concealable and inexpensive handguns are not importable under existing law. The bill would add a new prohibition against the importation of barrels for nonsporting handguns. This change will, to some extent, discourage the existing circumvention of the importation controls which allows the assembly of nonsporting handguns from imported parts.

6. Mandatory Penalties. The bill would provide that those who carry or use firearms in the commission of Federal drug offenses will be subject to the Act's mandatory penalties. This amendment would resolve the current uncertainty whether such crimes are crimes of violence and, thus, fall within the existing mandatory penalty provision. However, there are significant negative aspects of the mandatory penalty provision which are discussed below.

Negative Aspects of S. 49

1. Definition of "Engaged in the Business." The definition is too narrow since it requires a person to engage in a "regular course of business for the purpose of livelihood and profit." Consequently, some criminal activity that may be prosecuted under existing law for engaging in a firearms business without a license may not be prosecutable under S. 49. For example, an individual who on several occasions disposed of firearms at cost to terrorists for the purpose of facilitating their crimes may not be held to be "engaging in the business."

2. Interstate Sales. The bill would permit interstate sales of firearms, including handguns, by licensees to nonlicensees if applicable State and local laws are complied with. State and local laws in the State wherein the purchaser resides would be defeated since, as a practical matter, licensees will not have knowledge of such laws. The problem is not cured by the requirement that the Secretary annually provide licensees with a publication containing such laws since the publication would not cover all local ordinances and would never be current. Purchasers' violations would be difficult to prove in view of the requirement to prove willfulness on their part, i.e., the purchaser knew that State or local law was violated. While the bill would create a presumption of knowledge of applicable State and local laws on a licensee's part, no such presumption would exist on the part of the purchaser.

3. Warrantless Inspections of Licensees' Records and Inventory. (a) The prohibition against unannounced inspections would enable unscrupulous licensees to conceal violations of the law; (b) limiting compliance inspections

to a single, annual inspection would have the same result and would be too infrequent to ensure compliance; and (c) the prohibition against use of evidence uncovered in such inspections in prosecutions for other than willful recordkeeping violations and sales to proscribed categories of persons would preclude prosecutions for serious crimes discovered, e.g., narcotics offenses, illegal possession of machineguns and silencers, illegal interstate firearms sales.

4. Recordkeeping. The bill's provision allowing licensees to dispose of firearms without maintaining records of such transactions, if the firearms have been in the licensee's personal collection for at least 1 year, would enable unscrupulous licensees to easily circumvent the recordkeeping requirements. Moreover, it would hamper law enforcement's ability to trace firearms and, hence, solve crimes. The exception for transfers into a personal collection to "evade" the recordkeeping requirements could not, as a practical matter, be proved.

5. Records in the Custody of the Government. The bill provides that licensees' reports to the Government and out-of-business records may not be kept by the Secretary at a central location. The requirement to decentralize the storage of such records is totally unnecessary and, from an administrative standpoint, is costly and burdensome.

6. License Denial and Revocation. The bill would not permit license denial or revocation on grounds for which the applicant or licensee was prosecuted in a criminal case and acquitted. Because the burden of proof on the Government is less stringent in civil actions, a civil license denial or revocation proceeding should not depend on the outcome of the criminal case. No constitutional rights are violated by the civil proceeding when the applicant or licensee was previously acquitted of criminal charges.

7. Forfeiture. (a) The bill would generally preclude forfeiture of firearms on grounds for which the owner or possessor was prosecuted in a criminal case and acquitted. Because the burden of proof on the Government is different in civil actions, a civil forfeiture of the

firearms should not depend on the outcome of the criminal case. No constitutional rights are violated by the forfeiture of firearms subsequent to the owner's or possessor's acquittal of criminal charges. United States v. One Assortment of 89 Firearms, 465 U.S. 354 (1984). (b) The bill would allow the seizure and forfeiture of firearms "intended to be used" in a violation of the GCA only in connection with certain specified offenses. The list of specified crimes is too narrow, e.g., while firearms intended to be received by persons under indictment may be seized, firearms intended to be received by persons such as felons, fugitives, mental incompetents and illegal aliens would not be subject to seizure and forfeiture.

8. Relief from Disabilities. Current law provides for the Secretary's granting of relief from Federal firearms disabilities to persons convicted of crimes punishable by imprisonment for a term exceeding 1 year. The bill would extend the right to apply for relief to other proscribed persons, e.g., fugitives, adjudicated mental incompetents, illegal drug users and addicts, and illegal aliens, and provide for de novo judicial review of administrative action denying relief.

9. Interstate Transportation of Firearms. The bill allows the transportation of an unloaded, inaccessible firearm in interstate commerce notwithstanding any State law to the contrary. This provision would erode the integrity of State laws and impede the efforts of State and local law enforcement officials to enforce such laws. In other words, State prosecutors will find it difficult to rebut violators' contentions that their firearms were moving in interstate commerce. Issues raised in State prosecutions relative to when interstate commerce began and when it ended will be difficult to resolve. Furthermore, a prosecution involving a purely intrastate transportation of a firearm may be defeated by the possessor's contention that an interstate journey with the firearm had just commenced.

10. Penalties for Violating GCA. (a) The bill provides a knowledge or intent element of proof with respect to all GCA offenses, "knowledge" as to some and "willfulness" as to others. Willfulness may be interpreted to mean

knowledge of the requirements of law and the specific intent to violate legal requirements. The willfulness element would make it extremely difficult to successfully prosecute many cases, e.g., a nonlicensee's illegal interstate firearms purchases. (b) By reducing all licensee recordkeeping violations to misdemeanors, serious violations could not be adequately prosecuted and punished, i.e., a dealer's sale of firearms off-record and his willful refusal to make or maintain any required record could only be prosecuted as misdemeanors.

11. Mandatory Penalties for Criminal Misuse of Firearms. The bill weakens the existing mandatory penalty provision relative to the use or carrying of firearms in the commission of a Federal crime of violence by: (a) adding an element to the carrying offense that the carrying be "in furtherance of" the violent crime (existing law already requires that the carrying be "in relation to" the underlying crime); and (b) allowing the court to avoid imposing the penalties if the defendant acted in self-defense. Relief from the mandatory penalties would occur after the defendant has been found guilty of using a firearm to commit a violent Federal crime. Moreover, the penalties could be removed even though the defendant failed to prove self-defense as a defense to the violent crime. The bill may be interpreted to allow a fleeing felon to avoid the penalties where he used a firearm to make his escape.

12. Definition of Conviction. The bill provides that what constitutes a felony conviction would be determined by the law of the jurisdiction where the conviction occurred. This would require the Bureau to examine the peculiar laws of each State to determine whether a person is convicted for Federal purposes. Further, any conviction which has been expunged or pardoned would not be considered a disabling offense under the GCA. Under present law, State pardons and State court proceedings which set aside a plea or verdict of guilty upon a successful completion of probation do not eliminate the underlying conviction insofar as Federal law is concerned and such a person must still apply for and receive relief from Federal firearms disabilities.

58-805 O—86——7

13. Collector Recordkeeping. The bill would require that licensed collectors maintain only a record of acquisition and disposition of firearms, i.e., the so-called "bound book." Firearms Transaction Records, Forms 4473, executed by the purchaser and used by the seller to establish the purchaser's eligibility and identity would be eliminated. The Act was recently amended to permit the importation of surplus military curio or relic firearms and since 1984 thousands of such weapons have been imported. Many of these weapons now eligible for importation are standard military weapons manufactured as late as 1945. Because of these influx of the weapons into the country, law enforcement's need for licensed collectors to maintain Forms 4473 still exists.

In your assessment of the accuracy of the above analysis of the bill's strengths and weaknesses, you should be aware that we have primarily approached it from the standpoint of its ease of administration and its impact on law enforcement. The firearms industry (including licensed dealers), the various special interest groups, and other concerned and affected members of the public in all probability view our concerns from an entirely different perspective. Accordingly, they may well perceive strengths where we see weaknesses and vice versa. Nevertheless, I hope the above analysis will better prepare you to address questions concerning the bill over the months to come.

I believe that the appropriate role of ATF is to provide technical and professional comments to you and other decision makers. Whatever the final outcome, we will enforce the law (and any changes) as effectively as we can within existing resources.

Steve

Stephen E. Higgins

cc: John R. Simpson
William von Raab
Charles F. Rinkevich

Mr. AKAKA. Well, your answer to me was you do support the bill?

Mr. HIGGINS. Yes.

SELF-DEFENSE PROVISION

Mr. AKAKA. But one of my colleagues has called that the Federal Felons Special Relief Act. Because sections of the bill may be interpreted to allow fleeing felons to avoid criminal prosecution.

Do you support this, or is this one of the 13?

Mr. HIGGINS. Well, it is one of the areas where we pointed out that there is some confusion even about what that particular provision means in allowing self-defense arguments to be made. We would not characterize that as a Federal Felons Relief Act.

CAPITOL BOMBING

Mr. AKAKA. We can certainly remember vividly that bombing that took place on the Senate side on November 7, 1983.

Can you tell us what the status is of that now?

Mr. MCGUIRE. We are participating to a great extent with the Federal Bureau of Investigation and the Capitol Police in the conduct of that investigation.

I think you might infer that that will go into executive session at some point to bring you up to date, and I will be glad to work with Mr. Pasco to make arrangements to bring you up to date as to where that investigation lies at this time.

Mr. AKAKA. Well, I will speak to the Chairman about that.

ABORTION CLINIC BOMBINGS

And during the last hearings last year, we were briefed on the series of abortion clinic bombings.

What is the status of that, those investigations?

Mr. MCGUIRE. There has been a total of 41 arsons and bombings of the abortion clinics around the country since the inception of what we refer to as domestic terrorism. And of those 41 incidents, we have solved 24. Thirteen individuals have been successfully prosecuted at this time, and while that would indicate 17 investigations remain open, eight of those incidents have occurred since mid-October of this year. So we are still in the early stages of the investigation of those incidents.

And I might add that not all of those 41 incidents resulted in significant damage. Some of them were lesser incidents, such as a fire bomb being thrown through a window, or something of that nature, where local law enforcement and public safety officials were able to take care of it. So some are very, very significant; some are not as significant.

We are extremely proud of the success of the special agents in the conduct of those investigations.

Mr. AKAKA. Thank you very much.

My statement, Mr. Chairman, is that we took a position several years ago, and the kind of reports we have been getting proves that we were right in keeping the ATF.

Thank you very much.

Mr. ROYBAL. Very profound statement.
Mr. Wolf?

TAX BILL

Mr. WOLF. Thank you, Mr. Chairman.

I just have, I think, one question, and I have asked it so far of all the witnesses from the Treasury because the Treasury Department originated the tax bill.

And in the tax bill there is a provision which we are committed to getting out of the bill, and I wanted to know what your position on it was insofar as the effect that it has on the bureau here basically.

We have data from other agencies. I do not know that we have received it from yours. Some of the data we have is so shocking that I cannot believe that the Administration would allow his provision to stay in. Because what it does is threaten certain missions of the government.

But as you know now, when a Federal employee retires, all the money that they put into the retirement is taxed, and then it goes into a retirement fund. At retirement, amounts the employee contributed are tax-exempt and recoverable during the three-years following active service.

The bill passed the House. The Administration, which is Republican, sent it up here. The House, which is Democratic, passed it. The thing is that both parties are sort of on this thing. We are kind of hoping that Mr. Packwood would take it out.

BUREAU CONCERN FOR RETIREMENT PROVISION

My question is, is this of any concern to you or your agency with regard to the number of employees, particularly professional employees in those groups?

Mr. HIGGINS. Let me answer it in two ways.

First, I will answer it for myself personally because I have looked at it very closely, and I wish I were closer to retirement age, because I guarantee you if I saw it was going to pass, I would retire before that does, because it would have a personal financial impact on me as an individual.

We have not as an agency surveyed our people though I know in conversations with our staff that there is a great level of concern, and many people have called our Personnel Office, and we have kept our people up to date on the progress of that bill because we know there are a number that are simply going to retire before the bill should pass that way.

So we will lose a lot of people, and it is something that is of concern.

Mr. WOLF. Could the loss of those people cause an impact on the mission of your bureau?

Mr. HIGGINS. Yes. To be speculative, I would say any time we lose well-trained special agents and inspectors and executive staff and managers, as we would, it certainly would have at least a short-term impact.

DEPARTMENTAL CONCERN FOR RETIREMENT PROVISION

Mr. WOLF. Well, you said the same thing that every other agency has said, and we have it again from other departments.

Is there anybody here from the Treasury Department, the Secretary's office, in the audience?

Ms. KENT. Yes.

Mr. WOLF. You are with Secretary Baker?

Ms. KENT. Yes.

Mr. WOLF. And what is your job with Secretary Baker?

Ms. KENT. Deputy Assistant Secretary for Departmental Finance.

Mr. WOLF. Have you been here at the other hearings?

Ms. KENT. Yes, I have.

Mr. WOLF. I know the Secretary is busy, but has anyone gone back to tell him what others are saying? And I am really serious with this. Because I am going to ask him when he comes up. And I know that he will tell me about that.

But is anyone telling him about what this is doing to the mission of just the Treasury Department?

Ms. KENT. Sir, I understand your concern. I believe when we surveyed department-wide internally, and this is reflected in a letter that you received from Mr. Wilson, about 6,500 employees would be eligible.

But, based upon 1985 rates, we do not expect more than 40 percent.

Mr. WOLF. But you cannot say that though. What do you base it on? In 1985, the law was not in effect.

Ms. KENT. I understand what you are saying. The other side of this, of course, is the fact that this equalizes the treatment of Federal annuitants with those in private sector business.

Mr. WOLF. But that is not true. Now, that—no, no.

Now, for the record, you really should understand that that clearly is not true.

In the private sector, 95 percent of the pension plans are noncontributory, meaning they do not contribute in.

In the government sector—how long have you been with the government?

Ms. KENT. Quite awhile.

Mr. WOLF. How long?

Ms. KENT. Fifteen years.

Mr. WOLF. Well, then, you know that it is a contributory plan. So it does not equalize.

U.S. SAVINGS BOND BROCHURE

Secondly, with your position, are you aware of this booklet?

Ms. KENT. Yes, sir. I believe though that that is the 1985 version and not the 1986 version.

Mr. WOLF. It is not circulating at all then because——

Ms. KENT. The current one, I believe we did check into that after your question at the first hearing to Mr. Egger. I believe I have a xeroxed copy of the current one. I do not have the hard copy. But the xeroxed copy does not contain the language that you pointed out.

Mr. WOLF. Well, this is the one that we called the Treasury Department and asked them for the brochure on the U.S. Savings Bonds Program. This is the one that they sent me.

Ms. KENT. I understand, and perhaps it still is. But it is not the current version of it, and we will bring a current version for you next week. I will send one to your office.

Mr. WOLF. Well, as you pointed out, and you are not going to change your mind on this, and you are going to go with your current version, which does not——

Ms. KENT. The current version is consistent with the policy reflected in the Tax Bill.

Mr. WOLF. Do you feel that this is a violation of a commitment made where you tell people——

Ms. KENT. Well, no, I think that that is true under current law. And I do not think that it was meant as a policy document. It was meant as a statement of fact.

And perhaps there was failure to coordinate adequately between different parts of the Treasury Department at that particular point in time. I believe we have remedied it now.

If you would accept this, I could give you the hard copy later.

Mr. WOLF. Sure, sure. I would like to see it.

Ms. KENT. But, you know, there was not intent, of course, to mislead anyone.

Mr. WOLF. Oh, I know that. I know that.

Ms. KENT. But I think we do have it corrected now, and we will provide you the hard copy right away.

Mr. WOLF. Does that mean exactly as you corrected it? It means that the Treasury Department is committed to going ahead with the way it is in this.

Ms. KENT. Well——

DATA ON RETIREMENT ISSUE

Mr. WOLF. Because, see, we have data now. We have data now that shows that it brings in absolutely no revenue.

And by the time you have to—if you believe that the Federal Government has an important mission, by the time you have to have that individual retired, take this individual here or anyone, they retire and go out on their retirement. You then have to pay their retirement process, whatever it is. You then have to pay the additional salary and the training for the person that takes their place.

Now, in a week or so, we are going to announce the different letters and the data that we have, but we have agencies of the government telling me that it would devastate their agencies.

Now, I cannot understand why, and obviously you did not draft the bill on this and not directed before——

Ms. KENT. I understand.

Mr. WOLF. I want you to know how strongly I feel about this so that when the Secretary, who I think is one of the best Cabinet members you have, we have—I mean I am with you, I am on your side. I am for this Administration.

Ms. KENT. I understand.

Mr. WOLF. I would hope you would tell the Secretary that the data that we have and, of course, people can come up with different data, but we think it is reliable, shows that it does not save or bring in the money. And frankly, I do not think the Ways and Means Committee ever had this type of information. I think it is something that is really kind of fuzzy.

Secondly, if it would do all of this to the mission of the government, might it not be a good idea to withdraw the proposal and have them come out, say that we are going to relook at this thing and we are going to change our mind about it?

Ms. KENT. I think that, you know, you have made some very legitimate points. I believe that I—although I do represent the Department, I am not the best person to speak on tax policy issues.

I would say as to the revenue issue, I know the point you are making is that the salary and the training increases and someone ought to set the revenue. Say the revenue savings estimates are about $7 billion over the estimated time period.

Now, I would be delighted to have someone in Treasury take a look at your numbers and give you a response. Perhaps that is the way we should do it.

Should I contact your staff?

Mr. WOLF. Sure. Why don't you do that.

I do not want to be a bother. I do not want to take the Chairman's time too much. I do not want to get bogged down to these numbers either because——

Ms. KENT. It is a policy issue. I understand.

Mr. WOLF. It is a policy issue. If you want this government to be effective, you know, when you had the Tylenol situation, they ran to the Food and Drug Administration.

And I am concerned that what we are doing is we are beginning to kind of just make such a morale problem that you are going to find a lot of good people do not want to come in and serve in their government. And if that takes place, if we do not get gentlemen and ladies somewhat like we have here in 10 or 15 years, then we are going to get marginal people in. And then when we get in marginal people then we are going to get in a situation whereby we have graft and we have corruption, we have problems that many other countries have that we do not have now.

And I would urge the Secretary to really kind of take a look at this, not only from the dollars and cents point of view, but also what the end result will be on the mission of the different agencies. And at an appropriate time, maybe I will wait until he comes up, I will be willing to read portions of the statements from the different people. And I would hope that the Secretary would come in and say, that although the Administration is still interested in passing the tax reform bill, we would be willing to take a look at removing this provision and negotiating what Senator Packwood pushed to take out.

And I apologize. I am not——

Ms. KENT. I understand. You ask the question to each witness.

Mr. WOLF. But I just want to be sure that Mr. Baker——

Ms. KENT. We are aware of your concern.

Mr. WOLF. Okay.

Ms. KENT. And we will address it.

Mr. WOLF. Thank you.

Mr. ROYBAL. May I add at this time that Secretary Baker is due to appear before this Committee on Thursday, March 6.

Mr. WOLF. Thank you, Mr. Chairman.

GUN SMUGGLING

Mr. ROYBAL. Mr. Coleman.

Mr. COLEMAN. Thank you, Mr. Chairman.

The State of Texas is witnessing increased gun smuggling activity along the U.S.-Mexico border. There was a recent editorial in a political journal or a journal that criticizes politicians generally, regardless of party. And it is one that is widely read in the State of Texas.

One of their recent editorials argued that the emphasis on the war on drugs is neglecting the war on guns. And they pointed out that the Houston office of BATF was finding evidence of increasing gun smuggling into Mexico, as a result of drugs coming in to the U.S. After they smuggled drugs into the United States, oftentimes those who are involved in that scheme like to double their profits, or at least not go back emptyhanded, and that in fact gun smuggling was taking place, going back into the country of Mexico.

I noticed that when Congressman Skeen asked the question about weapons, and we could sit around and talk about weapons, I am convinced that they are probably all U.S. manufactured. We are probably the largest arms exporter in the world, at least we always have been. I suspect that has not changed.

I am concerned, however, about whether or not the statements by the Houston BATF official who, by the way, they did not name, that suggests that mathematically, as he put it, we are outnumbered a hundred to one, or maybe even a thousand to one, and that was a quote, in terms of trying to deal with that as an issue.

Could you address that specific part of the question from a geographical standpoint?

Mr. MCGUIRE. Mr. Coleman, I think we are doing a very effective job in interdicting the smuggling of firearms out of the United States. Certainly there is a lot more to be done yet. But I point out that it is an increasing problem.

As you probably are aware, the Mexican Government passed their gun control act, if you will, in the same year, 1968, that the United States did. And since that time, we have seen a growing number of attempts to smuggle guns out of the United States.

This past year, our number of international traffic in arms cases nearly doubled. We think we are doing some other things that are equally as important. We are working with the Mexican Government in several different areas to try to resolve this problem.

Firearms was a subject of issue when we accompanied Attorney General Meese to meet with his counterpart in the Mexican Government, and we talked about strategies that would assist in alleviating this problem.

Obviously the areas along the southwest border are where most of the traffic takes place. As it relates to the interrelation between narcotics and firearms, we have told you before, and I think we are all in agreement, that firearms are a necessary tool of narcotics

dealers. Many of those individuals who are coming to the United States with narcotics use that opportunity to acquire firearms and take them back, because there is a tremendous potential for profit in those weapons outside the United States. A weapon that sells in the United States perhaps for $200, in other areas may well bring $1,000.

So there is no question but that there is a correlation between the two. As a matter of fact, the weapons found at the murder site of the Drug Enforcement agent, Camarena, in Mexico, had been acquired in the United States and ATF was able to trace the firearms, and identify the source of the weapons in a very short period of time. And we were able to make a successful prosecution on that individual.

BUDGET REQUEST TO OMB

Mr. COLEMAN. My question goes to the issue in terms of the personnel cuts, in terms of getting you the tools necessary to do your job.

I wonder, in terms of your original request to OMB, how much did we suffer as a result in terms of law enforcement from that time until the time that you present a budget to the Committee?

Ms. KENT. The original request to OMB was $193 million. And we can do a quick calculation for you.

About $15 million.

Mr. COLEMAN. What did that do in terms of personnel differences? Do you have that?

Ms. KENT. Yes.

Mr. COLEMAN. The original request to OMB?

Mr. HIGGINS. We initially asked for 3,172 staffyears.

Ms. KENT. That is probably with reimbursable though, Steve. Is it not?

You are talking about to the Department now?

Mr. HIGGINS. Yes, and the final departmental allowance was 2,957 staffyears.

Ms. KENT. I believe the request to OMB though, yes, was 2,957. It is a difference of 147.

Mr. COLEMAN. 147 personnel positions?

[Pause.]

CONCERN FOR ATF RESOURCE LEVELS

That is of concern to me. It is okay to make speeches about how good BATF is and how we need them, and yet, you know, I am not satisfied that we are doing everything we can if this is a growing problem, if it is one that is being recognized.

We know that no other agencies are going to deal with it. There is no place to deal with it. I mean if I want to smuggle a gun from El Paso to Juarez, Mexico, I would just take it across. There is no smuggling. Nobody stops me anywhere, do they?

I mean my point is that if it is a dealer who determines to get on the black market, the only people that would have any, at least in my State, the only people that would have any effect on that probably would be the ATF. I mean I do not know the State agencies that would have the right to control that. I do not know—I mean I

think that those are issues that, of course, some need to be addressed by State government or local ordinance making authority. But if that is not done, there is nobody else but BATF to make that determination.

Mr. QUEEN. Well, obviously, we share your concern. And in one of our offices, we have a staffing model, as we have vacancies we do not hire back in places where the model would indicate they are not needed and move into places where it would indicate they are needed.

And Houston is one of the offices, one of the few offices that has grown, and the Houston District is one of the few offices that has grown. One contributing problem to that is that part of the cuts that we have been making are in our employee transfer funds. If we need to move experienced agents there as an example, that is one of the areas that we have had to cut way back until we do not have the move money available to do some of the things we would like. But we are competing for funds like everyone else.

Mr. COLEMAN. Well, you know, everybody keeps talking about Gramm-Rudman until that is it, nobody will do anything else. That is not the case at all.

We are going to have an ability to prioritize the same as the President will at some point during this process. He is prioritized for handing us a budget. I hope that when we prioritize with our budget, both sides recognize that there is going to have to be some compromise. If we do that, then we do not act like Gramm-Rudman means the end of an agency or the stopping of doing some of the things that even in your report here, in the budget, you tell me you are going to do.

PURCHASE OF EVIDENCE FUNDS

As a former prosecutor, Mr. Queen, you probably would have some concern about the purchase of evidence being reduced by 20 percent, do you not?

Mr. QUEEN. Well, obviously, when the fund available to purchase evidence is reduced, the quantity of evidence you are going to purchase is going to go down with it. It is undeniable, of course.

Mr. COLEMAN. See, that is what I think concerns me most talking about the reality versus the nice features of BATF.

CONCERN FOR ATF RESOURCE LEVELS

I understand politically that the thing to do in the United States is to go and say you are against drugs. To say you are against trafficking of firearms does not sound as good. And besides, in Texas everybody knows it is okay to have guns.

And so I am suggesting to you that when the Governor of Texas or Nancy Reagan both express sympathy for the 14,000 new kids a year in Texas having their minds and their ability to think affected by drugs, well, I am sure there is something to that. But the problem is that I think we are beginning to neglect the concept that maybe we ought to be also concentrating on the smuggling of firearms. And if that is the case, then it seems to me we need to make certain you have got the funds necessary to do your job.

And I do not think prosecutors are going to be able to do their job to the same extent as they have done before if we are going to reduce the evidence acquiring by some 20 percent. I am not too sure about the printing budget part of it. I do not know what effect that might actually have on cases, probably none, at least certainly not as much as we lack the purchase of evidence. But I am concerned about that from a budgetary standpoint.

And I think this Committee has recognized that, as we have done in many other areas in terms of this Subcommittee's jurisdiction, that there were times that we had some of these things in mind that the Administration did not.

The IRS comes to mind immediately. And, sure enough, here we are this year with the Administration asking for more money. And, you know, it is not easy for us to be able to sit back and say we told you so. Even if politically, publicly, that did not necessarily get out.

What I am suggesting though is that this Committee still has that ability and that authority within some parameters that we all recognize, even in these tough budgetary times. And that is the reason I am interested in what you requested and what was requested to you by agents in Houston, by agents wherever they are, in terms of giving us their best estimate of what they need to do their job. I am concerned about it because I see BATF oftentimes in terms of personnel at my local level in my Congressional district, with an attitude that, well, we only have so much resources and that is it, and we can only do so much.

And I have got to say to you if, in fact, the smuggling of guns across the Mexico border going south, is increasing, it seems to me that we are not doing our job, because I am convinced it is related to the war on drugs.

And I thank you, Mr. Chairman.

U.S. SAVINGS BOND BROCHURE

Mr. ROYBAL. Any other questions?

Mr. Wolf?

Mr. WOLF. Yes, I have another question. And it is more to the representative again from the Treasury Department.

I want to be sure the record is accurate, and I think the way the record stands today it is not accurate.

I think what we did, and obviously you know I was going to ask the question, because you had this thing xeroxed, and I respect that.

But you are really comparing apples and oranges. And I think it is inaccurate, and I am disappointed that this may give, to people listening, the impression that this xeroxed brochure addresses what I was saying.

The brochure that I raised says "U.S. Savings Bond: What to Tell Your Federal Coworkers." And in it, it is Federal employees here, application form, Department of Commerce. It is geared toward Federal employees.

It is my understanding that the Federal Government is the largest agency, the largest employer that has employees with savings bonds.

What you gave me though really does not deal with that. It says "What to tell your friends and coworkers." So the fact that you are distributing this now does not really meet the question of what I asked.

Mr. KENT. Okay. Mr. Wolf——

Mr. WOLF. So my question is do you have a separate one that is now going out to Federal employees now? The fact that I called Savings Bonds and got this the other day, does that mean that they are not sending these out?

Ms. KENT. Okay. I have to say to clarify the record, what we are going to have to do is get back to you again.

There was no intent there to mislead you. I was given that as the current brochure. What I will have to really do for you is check and see whether the one you are holding in your other hand, the hard copy is in fact still current, and this is a different brochure, and whether or not, you know, your point is well taken. We will look into that.

Mr. WOLF. But you do agree for the record that this one would go to all employees, whether they worked for Bethlehem Steel or Rinky-Dinky Day School, whatever.

Ms. KENT. I would have to agree that it is more general, correct.

Mr. WOLF. And this one is explicitly for Federal employees?

Ms. KENT. Yes. The only issue that I am not aware of right now, and will have to check, is if one superseded and they are no longer using the other one. I will have to check that.

Mr. WOLF. Have you always had one to the general public?

Ms. KENT. I do not have that information. I am sorry. I will have to look into it. I am really not as prepared as we need to be to answer that question.

Mr. WOLF. Okay. I just want the record to show that the previous answer which gave the impression that the Treasury Department had addressed the problem and had taken care of it is inaccurate, because this one here, Mr. Chairman, says "What to tell your friends and coworkers," and I will submit it for the record. And the other one says, "What to tell your Federal coworkers." So they are really apples and oranges.

Ms. KENT. We will clarify that.

Mr. WOLF. Thank you, Mr. Chairman.

Mr. ROYBAL. Thank you, Mr. Wolf.

Mr. Hoyer, who is not present at the moment, has asked me to submit these questions so that you can answer them as soon as possible.

Mr. HIGGINS. We will.

[The questions and answers for the record follow:]

[The following questions were not asked at the hearing but were submitted to the Bureau for response subsequent to the hearing by Mr. Hoyer:]

PERSONNEL

Question: What amount did you request from the Department for FY 1987? What amount was requested of OMB?

Answer: Our FY 1987 request of Treasury included 3,172 staffyears and $203.9 million. The Department approved a staffing level of 2,957 and $193.6 million, which was forwarded to the Office of Management and Budget.

Question: The 91 positions which are to be cut - will these be RIFs? Your justification says you will reduce firearms cases by 246, is this a result of the cut? How will the cut affect enforcement?

Answer: In FY 1987 the Office of Law Enforcement will reduce overall staffing by 60 positions as a direct effect of transferring tobacco enforcement responsibility to the States. This reduction will be accomplished through attrition. No RIFs will be necessary.

The estimated reduction in firearms cases to be initiated in FY 1987 is not a result of the cut. ATF will be slightly realigning existing resources based upon our Crime Impact Program to meet the most pronounced crime problems.

The Compliance Operations portion of the 91 position cut is 31. We will do everything possible to take these cuts without any RIFs; however, there may be less than desirable effects on many of our employees through the actions we will be forced to take. This cut will affect the enforcement of the Federal Alcohol Administration (FAA) Act. Less personnel will be available for FAA programs such as labeling, ownership and control, and product and market integrity.

ENFORCEMENT

Question: The budget justification says that automation efforts to enforcement will be curtailed 61 percent. Won't this hamper your ability to track weapons and explosives? How much of your effort is already automated? Can you interface with the FBI and police organizations with your systems?

Answer: The loss of funds allocated for the automation of ATF will hamper our ability to track weapons and explosives. ATF has recognized for some time the need to develop an integrated law enforcement information data base in order to support investigative operations. Through necessity, limited automation evolved in order to manage large information files; specifically firearms and explosives licensees, traced firearms, NFA registrations and

explosives incident records. Additionally, investigative time and case summary data bases were developed independently in an attempt to further manage investigative resource allocations. Finally, ATF utilizes the existing TECS system in an effort to index all investigative activity and suspects. Each of these "systems" are independent and non-integrative, and provide limited value to field operations.

ATF's request for funding was the result of a departmental mandate to the U.S. Customs Service to develop TECS II as a modern, integrated computer system with ATF as a major user and beneficiary of the new system. Concurrent development with the U.S. Customs Service would result in cost savings in database modernization, system development, overhead, shared common application, and in addition database compatibility would be assured.

TECS will be terminated in 1987 and TECS II will become operational. TECS is being replaced because it can not meet the modern requirements for law enforcement including increased emphasis on computerized investigative techniques, analysis of intelligence data, and targeting of potential violators. In addition, TECS/TECS II serves as ATF's "gateway" to the FBI's NCIC and other Federal, State, and local law enforcement database. The loss of this capability would seriously effect ATF's accessibility to modern law enforcement databases.

This reduction has eliminated the purchase of 450 terminals, upgrading of the IBM 4341 to maximum capacity and the completion of database conversion, all necessary to ensure that ATF will be a viable law enforcement entity.

Question: I am very concerned over the increase in automatic weapons. We all saw the cover story in Newsweek this past year, and it appears that the number of these weapons is steadily increasing. What can we do about it? Have organized criminals and drug traffickers begun to use these weapons more often?

Answer: ATF shares your concern over the proliferation of illegal automatic weapons and silencers and the recent increase in production and distribution of machine gun conversion kits and silencer parts. We are making a concerted effort to address the problem and thus far statistics reveal our enforcement efforts have been successful. During FY 1984, ATF took into custody 539 machine guns of which 210 (39 percent) were conversions. In 1985, ATF began intensive monitoring of the advertisement and sale of conversion kits and followed up with undercover probes. These endeavors resulted in the initiation of numerous undercover investigations. Ultimately, over 3,000 investigative leads and referrals evolved. ATF's initiative in FY 1985 resulted in 2,042 machine guns being taken into custody of which 1,609 (79 percent) were conversions.

ATF has and continues to identify firearms businesses that manufacture and/or distribute AR-15-type receivers/firearms in combination with M-16 internal parts, which allow for full automatic fire. When criminal intent and activity is detected with these firearms, ATF prepares cases for prosecution. ATF intends to initiate an intensive information campaign to alert the firearms industry and general public to the safety and legal problems of AR-15-type firearms which contain M-16 internal parts.

Machine guns and silencers are a favorite tool used by organized criminals and drug traffickers. Violence and illegal drugs are inseparable. Because firearms are easy to obtain in the United States, they are being used as a barter in drug transactions in some countries where drugs are prevalent and firearms are tightly controlled. Drug traffickers are also using American-made firearms more frequently to protect their operations as well as to cause instability within governments cracking down on the drug trafficking. In 1985, a MAC-10 machine gun made in Florida was used in the assassination of a prominent government official in Colombia.

ATF investigations reveal that the most sought after weapons by drug traffickers are Colt AR-15's, AKS and AKMS as well as MAC-10 machine guns. In FY 1985, 59.9 percent of ATF defendants were narcotic users or traffickers and 55 percent had previous felony records.

Question: How does the McClure-Volkmer legislation affect your detection and enforcement efforts on firearms and automatic weapons?

Answer: ATF is confident that the McClure-Volkmer legislation is a reasonable balance between the needs of law enforcement and the rights of citizens. We believe that ATF has played an appropriate role in the decision making process by providing technical and professional comments to governmental decision makers. Whatever the final outcome, ATF will enforce the law as effectively as we can within existing resources.

Question: The President of the National Association of Federal Licensed Dealers says that all plastic guns, and even plastic bullet casings are soon to appear in the market. How soon? Can we detect them? Should we act to ban such weapons? Could this weapon be smuggled past metal detectors if it were disassembled?

Answer: Currently, ATF is unaware of any plastic firearm on the market or in production. We know of one company based in Dallas, Texas, which initiated research and development of a plastic handgun approximately 5 years ago but they have not proposed production. Bullets with plastic casings have been on the market for several years. Plastic handgun ammunition is utilized for training purposes and in riot control while plastic shotgun shells are now commonly used for sporting purposes.

Recently there has been a great deal of media attention on the Glock 17 handguns imported from Austria. This firearm is often referred to as a "plastic pistol". This label is a misnomer since the firearm is constructed of 83 percent metal and 17 percent plastic. It is a high quality, accurate, and reliable firearm which has been adopted by the Austrian Army as their standard sidearm service weapon. The Glock does not present any greater security problem than any other handgun. Furthermore, it is detectable using a magnetometer.

Testing and research to determine if plastic firearms are a detection problem has not been conducted.

ALCOHOL

Question: Last July a Texas man died from drinking a wine which contained sulfites that caused a massive allergic reaction. I understand that the U.S. Court of Appeals is deciding a case which would mandate labeling regulations and disclosure of contents for alcoholic beverages. What is the status of labeling efforts and the Department's position?

Answer: Under circumstances where there was neither evidence of substantial consumer interest in the information, nor clear evidence that the information would provide substantially useful information to consumers generally, the Department concluded that the indiscriminate ingredient disclosure rules should be rescinded. Therefore, on October 6, 1983, the Bureau of Alcohol, Tobacco and Firearms (ATF) published a final rule, T.D. ATF-150, rescinding the ingredient labeling regulations, except for disclosure of the color additive FD&C Yellow No. 5. At that time, there was no clear evidence in the record that any other ingredient posed a recognized health problem. However, ATF also stated in that final rule that other ingredients, related to health issues, will be reviewed on a case-by-case basis to determine whether their mandatory disclosure is appropriate.

In that regard, ATF recently published a final rule, T.D. ATF-220, requiring label disclosure of saccharin for alcohol beverages containing that artificial sweetener.

Additionally, recent scientific developments have shown that sulfiting agents can cause reactions in sensitive individuals, particularly in asthmatics. It has been estimated that among the 10 million asthmatic patients in the U.S. population, as many as 1 million may be sulfite sensitive. At the present time, we are involved in rulemaking to require mandatory label disclosure for alcohol beverages containing these preservatives. Since the Food and Drug Administration (FDA) is also involved in similar rulemaking, we are working very closely with them. Comments received in response to our notice of proposed rulemaking (over 500) are being analyzed, and we anticipate publication of a final rule in the near future.

As to the current status of ingredient labeling, the District Court ordered date of April 30, 1986 for implementation of the ingredient labeling regulations has been waived, pending completion of the appeals process.

Question: Last year we discussed the marketing of low alcohol spirits. Where are we on that? I understand that now there are different methods for reducing the alcohol -- ranging from adding water to centrifuging out the alcohol. I think it is time for BATF to consider a standard for the industry and require labeling to protect the consumer from misleading and deceptive practices, and provide for a lower alcohol spirit. What is the possibility of such a standard?

Answer: On August 4, 1983, we first asked for public comments on this issue, in response to a petition from Heublein, Inc.

After extending and reopening the comment period, we received a total of 493 comments, including comments from 11 Members of Congress. These comments express a cross-section of views on the issue.

More recently, a petition from Joseph E. Seagram & Sons, Inc. suggested that we establish a different standard for distilled spirits which are reduced in alcohol by thin-film evaporation or by a distillery process other than diluting with water. We had not considered this idea previously. Therefore, we reopened the issue for comments again, on January 13, 1986.

In addition, very few of the first 493 comments were from consumers, and this concern was also expressed in our notice published on January 13. Our request for comments from consumers was covered by the media, so that we are now beginning to receive many comments from private individuals, rather than from industry members.

As of March 3, 1986, we had received 223 new comments for a total of 717 comments on this issue; almost all of the new comments are from consumers. We will be open for comments until April 14, 1986.

After all of the comments have been received and analyzed, we will be able to make a decision on this issue. However, it would be a bit premature at this stage of the rulemaking process to speculate on a final decision.

Mr. ROYBAL. I would like to thank you, Mr. Higgins, and your colleagues, Mr. Queen, and the others for excellent testimony. You usually level with this Committee. You always have, and that is the way we like it.

Thank you very much.

[The justifications follow:]

Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1986
(Dollars in Thousands)

	Permanent Positions	Average Positions	Amounts
FY 1986 Appropriation (Continuing Resolution) Enacted by Congress...	3,043	2,941	174,212
Adjustment:			
(1) Reductions under P.L. 99 177.....	0	0	(7,491)
Proposed Authorized Level for FY 1986.....	3,043	2,941	166,721
Estimate FY 1987.....	3,000	2,850	178,463

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1987

	Appropriation		Authorized Level		Budget Estimate		Increase or Decrease for FY 1987					
	FY 1985		FY 1986		FY 1987		Total Changes		Prog Changes		Other Changes	
	Avg Pos	Amt	Avg Pos	Amt	Avg Pos	Amt	Avg Pos	Amt	Avg Pos	Amt	Avg Pos	Amt
1. Compliance Operations	1,118	54,466	1,109	52,571	1,078	56,861	(31)	4,290	0	0	(31)	4,290
2. Law Enforcement	1,850	116,785	1,832	114,150	1,772	121,602	(60)	7,452	0	0	(60)	7,452
Unobligated balances lapsing	0	863	0	0	0	0	0	0	0	0	0	0
Total appropriation authorized level & budget estimate	2,968	172,113	2,941	166,721	2,850	178,463	(91)	11,742	0	0	(91)	11,742
Permanent positions established	3,043	0	3,043	0	3,000	0	(43)	0	0	0	(43)	0

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Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FY 1987

(Dollars in Thousands)

OTHER CHANGES:	Activity I Pos	Activity I Avg Pos	Activity I Amt	Activity II Pos	Activity II Avg Pos	Activity II Amt	Total Pos	Total Avg Pos	Total Amt
Increases Necessary To Maintain Current Levels:									
1. Net cost of within grade salary increases required by statute	0	0	238	0	0	560	0	0	798
2. Grade to grade promotions	0	0	97	0	0	450	0	0	547
3. Increase in payment to Employee's Compensation Fund	0	0	236	0	0	389	0	0	625
4. Increase in payment to Unemployment Compensation Fund	0	0	2	0	0	3	0	0	5
5. Increased cost of employee benefits	0	0	311	0	0	511	0	0	822
6. Increased travel and transportation costs	0	0	103	0	0	170	0	0	273
7. Increased cost of permanent change of station moves	0	0	576	0	0	1,672	0	0	2,248
8. Payment to GSA for space and related services	0	0	199	0	0	326	0	0	525
9. Increased cost of postage	0	0	40	0	0	67	0	0	107
10. Increase in the cost of utilities	0	0	2	0	0	3	0	0	5
11. Increased cost of FTS and other communications	0	0	40	0	0	65	0	0	105
12. Increased cost of equipment leasing and maintenance	0	0	76	0	0	124	0	0	200
13. Increased cost of ADP equipment leasing and maintenance	0	0	172	0	0	89	0	0	261
14. Increased printing costs	0	0	88	0	0	24	0	0	112
15. Increased cost of outside contracts	0	0	154	0	0	253	0	0	407
16. Increased cost of reimbursement for services of other Government agencies	0	0	61	0	0	91	0	0	152
17. Increased cost of supplies	0	0	104	0	0	172	0	0	276
18. Increased cost of equipment procurement	0	0	38	0	0	618	0	0	656
19. Payments to Social Security Trust Fund	0	0	294	0	0	483	0	0	777
20. To maintain the FY 1986 program levels reduced by P.L. 99 177	0	0	3,043	0	0	4,448	0	0	7,491
Subtotal, Maintaining Current Levels	0	0	5,874	0	0	10,518	0	0	16,392

Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

	Activity I			Activity II			Total		
	Pos	Avg Pos	Amt	Pos	Avg Pos	Amt	Pos	Avg Pos	Amt
Reductions, Nonrecurring Costs and Savings:									
1. Compliance Operations Alcohol Program	(14)	(31)	(1,584)	0	0	0	(14)	(31)	(1,584)
2. Law Enforcement Tobacco Program	0	0	0	(29)	(60)	(3,066)	(29)	(60)	(3,066)
Subtotal, Reductions, Nonrecurring Costs and Savings	(14)	(31)	(1,584)	(29)	(60)	(3,066)	(43)	(91)	(4,650)
TOTAL, OTHER CHANGES	(14)	(31)	4,290	(29)	(60)	7,452	(43)	(91)	11,742
Total Increases or Decreases in FY 1987 Compared with Proposed FY 1986 Authorized Level	(14)	(31)	4,290	(29)	(60)	7,452	(43)	(91)	11,742

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

IMPACT OF FY 1986 GRAMM-RUDMAN-HOLLINGS
BUDGET REDUCTIONS

Description of Impact on Bureau Programs:

The G R-H reductions will have a direct impact on all Bureau programs during FY 1986. ATF has attempted to minimize this impact by maintaining an adequate staffing level, focusing reductions on operational areas rather than personnel. Spending will be curtailed in tax collection services, equipment, travel, automation, permanent change of station moves, purchase of evidence, and other operational categories, including vehicle replacement and cash awards. The overall impact will culminate in the potential loss of revenue related to uncollected taxes and diminished public safety.

- Effect on Workload:

Reduced funding will require the Bureau to realign its workload priorities. Specifically, fewer complex investigations will be initiated. High priority on-site inspections of persons and businesses in various related industries will be conducted but will be less intensive.

- Effect on Services:

G R H reductions will reduce program efforts in the following areas in FY 1986:

- Administration of the Federal Alcohol Administration (FAA) Act;

- Enforcement of all alcohol and tobacco excise tax laws in selected areas, including:

*Reimbursement to IRS for special occupational tax services; issuance of renewals and receipts (tax stamps) issued to the public.

*Printing of State Laws and Published Ordinances - Firearms, resulting in firearms dealers seeking such materials from State/local governments.

Effect on Ability to Fulfill Bureau Mission:

Reducing operating funds by $7.5 million in FY 1986 will limit our existing equipment, mission travel and related investigative funding.

It should be pointed out that ATF has been involved with rebuilding its work force following the loss of large numbers of employees during the proposed abolishment of ATF in Fiscal Years 1982 and 1983. As a result, the cuts proposed by Gramm-Rudman Hollings have been directed at operational funds rather than personnel, in order to minimize the effect on employee morale. Low morale has a detrimental impact on productivity and mission accomplishment.

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

EXECUTIVE SUMMARY

FISCAL YEAR 1986

The ATF appropriation, as approved by Congress in the Continuing Resolution (P.L. 99-190), totals $174.2 million and 2,941 average positions. Based on the automatic-cuts-provisions of the Balanced Budget and Emergency Deficit Control Act (P.L. 99-177), the Bureau's 1986 appropriation will be reduced by $7.5 million or 4.3 percent effective March 1, 1986. To achieve this reduction and maintain the current authorized staffing level as well as most uncontrollable cost and workload increases, the Bureau has proposed the following:

(1) Tax Collection Services Provided by IRS: -$1.1 million

Taxes imposed on certain occupations in the alcohol and firearms industries generate in excess of $21 million annually. ATF administers these taxes and, under the current arrangement, reimburses IRS for processing special occupational tax returns and issuance of special tax stamps to the taxpayers, as proof of payment. Because of the Gramm-Rudman reductions, ATF must decrease reimbursement to IRS for processing special tax returns.

(2) Equipment: -$1.9 million

This will require the elimination of replacement police vehicles, delay in acquisition of the digital voice privacy (DVP) program and special investigative equipment.

(3) Travel: -$1.0 million

This reduction will impact mission travel and limit investigations and on-site inspections.

(4) Automation Efforts: -$1.0 million

The Bureau will curtail all planned automation efforts by 61 percent.

(5) Permanent Change of Station Moves: -$0.7 million

It should be noted that before the G-R-H reductions were taken, the Bureau reduced PCS moves by 32 percent, to partially offset the nonrestoration of the 5 percent pay cut. With the G-R-H reductions, the Bureau further reduced PCS moves by an additional 18 percent. Because of more than 85 special agent retirements, some critical positions will remain vacant for extended periods of time, and could cause staffing problems in some offices, impeding program objectives.

(6) Purchase of Evidence: -$0.2 million

Purchase of evidence will be reduced by 20 percent.

(7) Other Operational Catogories: -$1.6 million

All further cash awards for the remainder of FY 1986 have virtually been eliminated and overtime has been reduced by 25 percent. In addition to the elimination of all police vehicles, vehicle and aircraft supplies were reduced approximatoly 13 percent which will hamper Law Enforcement investigations.

In an effort to centralize and reduce support staffing, the Bureau completely centralized all field administrative activities at Headquarters during FY 1985. This effort required a complete revision to Headquarters space configuration. Completion of this effort will be deferred, since the Bureau had to reduce funding in this area by 30 percent.

A 24 percent reduction in the Bureau's printing budget will be taken in the firearms area. ATF will eliminate the printing of State Laws and Published Ordinances - Firearms.

The proposed authorized level for FY 1986 with the above reductions is $166.7 million and 2,941 average positions.

Fiscal Year 1987

In keeping with the Administration's goal of reducing the Federal budget deficit, the Bureau is proposing program reductions totalling $4.7 million and 91 average positions in FY 1987. This reduction is offset by increases totalling $16.4 million, of which $7.5 million is for the restoration of the FY 1986 G-R-H reductions, to meet uncontrollable cost and workload increases required to enforce ongoing programs in both the Law Enforcement and Compliance Operations areas. The budget estimate for FY 1987 is $178.5 million and 2,850 average positions, which is a net increase of $11.7 million and a decrease of 91 average positions compared to the proposed authorized level for FY 1986.

SUMMARY JUSTIFICATION OF FY 1987 BUDGET ESTIMATE

GENERAL STATEMENT

The mission of the Bureau of Alcohol, Tobacco and Firearms is:

To reduce the criminal use of firearms and to assist other Federal, State and local law enforcement agencies in reducing crime and violence by effective enforcement of the Federal firearms laws.
To provide for the public safety by reducing the criminal misuse of explosives, combatting arson-for profit schemes and removing safety hazards caused by improper and unsafe storage of explosive materials.
To ensure the collection of all alcohol and tobacco tax revenues and obtain a high level of compliance with the alcohol and tobacco tax statutes.
To suppress commercial bribery, consumer deception and other prohibited trade practices in the alcohol beverage industry by effective enforcement and administration of the Federal Alcohol Administration (FAA) Act.
To suppress illicit manufacture and sale of non taxpaid alcohol beverages.
- To assist the States in their efforts to eliminate interstate trafficking in the sale and distribution of contraband cigarettes.

The Bureau's program objectives are as follows:

ALCOHOL AND TOBACCO PROGRAMS

- Ensure the collection of all taxes due.
- Prevent organized crime or other unqualified applicants from obtaining permits to enter the alcohol and tobacco industries.
- Ensure an open, competitive market for alcohol beverages.
- Ensure protection for the consumer in alcohol beverage products.
Continue projects on regulatory reform and continue programs offering assistance to other agencies (both regulatory and law enforcement), industry and the public.

FIREARMS PROGRAM

- Reduce illegal trafficking in firearms.
- Assist Federal/State/local investigative and regulatory agencies in reducing illegal trafficking in weapons, reducing firearms-related crime and investigating firearms-related cases.
Identify and investigate violence prone individuals who use firearms in criminal acts.

EXPLOSIVES AND ARSON PROGRAMS

- Reduce criminal misuse of explosives.
Ensure public safety regarding the storage of legal explosives.
- Reduce arson incidents.
Assist Federal/State/local investigative and regulatory agencies in explosives/arson related arson.

ACTIVITY 1: COMPLIANCE OPERATIONS

Compliance Operations enforces laws and regulations affecting the alcohol, tobacco, firearms and explosives industries. Compliance programs are designed to ensure that all alcohol and tobacco excise taxes are collected; ensure the integrity of alcohol beverages offered for sale; and to provide open, competitive markets for alcohol beverages. Firearms and explosives programs support the Bureau's goals of protecting the public safety by reducing the criminal misuse of firearms and explosives and preventing the unsafe storage of explosives.

Compliance Operations' major effort to collect excise taxes and enforce tax, FAA, and firearms and explosives statutes rests with its field inspection program. The program consists of on-site inspections and investigations conducted of persons and businesses in the various regulated industries and audit assistance to Law Enforcement (LE) in arson investigations. This includes not only tax compliance examinations, but also examinations of explosives storage facilities and the securing of samples of alcohol beverages for contaminant testing, both done to ensure public safety.

The reduction in FY 1986 mission travel funds due to G-R-H will limit on-site inspections, audit assistance on arson cases to LE, and the amount of time spent on program review on certain other inspections. Further, Compliance Operations must periodically relocate employees in order to fill critical vacancies. These vacancies include management and supervisory positions and movement of field employees in response to shifting workloads in critical programs. Prior to the G-R-H reductions, the Bureau had reduced PCS moves by 32 percent, to partially offset the nonrestoration of the 5 percent pay cut. With the G-R-H reductions, the Bureau further reduced PCS moves by an additional 18 percent.

The FY 1987 budget request includes the reduction of 31 average positions and $1,584,000 from the previous year, offset by maintaining current level increases of $5,874,000, of which $3,043,000 is for the restoration of the FY 1986 G-R-H reductions.

Program	Fiscal Year 1985		Fiscal Year 1986		Fiscal Year 1987		Increase/Decrease over FY 1986	
	Avg Pos	Amt	Avg Pos	Amt	Avg Pos	Amt	Avg Pos	Amt
1. Alcohol	761	37,204	887	42,100	856	45,231	-31	3,131
2. Tobacco	39	1,889	32	1,514	32	1,680	0	166
3. Firearms	221	10,683	133	6,271	133	6,966	0	695
4. Explosives	97	4,689	57	2,686	57	2,984	0	298
TOTAL	1,118	54,465	1,109	52,571	1,078	56,861	31	4,290

1. ALCOHOL

The Compliance Operations Alcohol Program ensures collection of alcohol beverage excise taxes through field examinations and office reviews; prevents entry of criminals or other prohibited persons into the industry with a full qualification program; ensures the integrity of alcohol beverage products; and provides an orderly marketplace so producers, distributors and consumers can trade freely.

The tax compliance effort focuses on facilities offering the greatest risk to revenue based on the volume of operations, past history of violations, poor internal controls or questionable financial condition. Consistent enforcement efforts are needed to deter and detect schemes by unscrupulous operators to tap this ready pool of approximately $6 billion in annual collections and $20 billion in bonded liabilities.

As provided by the Deficit Reduction Act of 1984, the excise tax rate on distilled spirits was raised from $10.50 to $12.50 per proof gallon, effective October 1, 1985. Verifications of the required floor stocks inventory and the subsequent tax returns will be accomplished within existing Bureau resources.

The qualification review and inspection process prevents prohibited applicants from entering the industry, and screens out those who, if allowed entry, would unlawfully disrupt the industry. Field inspections are conducted for selected FAA Act and IRC applications. These inspections are tailored to the applicants' particular circumstances.

Market and product integrity investigations are conducted to enforce the FAA Act, including investigation and follow up on domestic and international label fraud cases. Current product integrity efforts concentrate on wineries, focusing on appellation of origin and grape varietal designations. There is further emphasis on those entities which make interstate sales. Sampling programs ensure compliance by manufacturers and distributors of both imported and domestic products. The problems ATF identified during the summer of 1985 with diethylene glycol contaminated imported wines show the necessity of continuing these sampling programs.

National market integrity investigations are conducted of large companies, and white collar crime and public corruption are investigated. Regional ownership and control investigations and market area surveys help detect and deter illegal trade practices.

Operations in the international arena improve the market environment for domestic producers. Because ATF is recognized as a responsible and effective regulator, the Bureau has effectively contributed to interagency efforts harmonizing regulations and lowering trade barriers.

During FY 1985, 1,933 revenue protection examinations and 1,058 product and market integrity examinations were conducted. There were 2,509 qualification examinations of prospective and current permittees. Total examinations for FY 1985 were 5,500. The large FY 1986 increase in total examinations is due to the distilled spirits floor stocks tax program. We anticipate doing several thousand of these short-term examinations within existing resources. This effort will reduce examinations in other areas. The remaining short-term floor stocks tax inspections plus a greater number of shorter product integrity inspections in designated problem areas, such as contaminated wines, account for the FY 1986 and FY 1987 workloads being about equal despite the reduction of 31 positions. Revenue collections are expected to total $6.1 billion in FY 1986 and $5.9 billion in FY 1987.

It should be noted that G R H funding reductions have caused ATF to decrease reimbursement to IRS for special occupational tax collection services.

2. TOBACCO

The Compliance Operations Tobacco Program ensures the collection of tobacco excise taxes through issuing permits and conducting inspections in the tobacco industry. In FY 1985, nearly $4.7 billion in excise taxes was collected. Tobacco collections for FY 1986 should remain at this level as it appears the current tax rate will continue. The current tax was scheduled to be reduced by one-half on October 1, 1985, but it has been temporarily extended by Congress. If the tax does revert back to the lower rates, collections will decline to $2.6 billion.

During FY 1985, 72 field qualification inspections were conducted to verify information submitted and check the proprietors' premises, and 502 tax compliance examinations were completed. In FY 1986 and 1987, 75 qualification and 225 tax compliance examinations are planned. This level of activity, slightly lower than previous years, reflects the conclusion in FY 1985 of the work necessitated by the FY 1983 cigarette tax increase and a change in the way certain revenue inspections are counted.

3. FIREARMS

The Compliance Operations Firearms Program processes applications, issues licenses, conducts qualification and compliance inspections, and provides support to Law Enforcement.

The qualification project prevents entry into the business by anyone prohibited by the Gun Control Act of 1968. This is done by reviewing applications, checking criminal records and performing selected field inspections. The inspection program focuses on assisting Law Enforcement in identifying criminals who illegally purchase firearms. It also educates licensees in proper recordkeeping and business practices and protects the integrity of the system by disclosing illegal sales and practices. Firearms seminars involving large segments of the firearms industry are conducted in a cost effective manner and provide dealers with information on their legal requirements. These educational seminars provide a regulatory presence in the firearms industry where reaction to the seminars has been very favorable.

In addition to assisting Law Enforcement to identify and apprehend criminals who purchase firearms illegally, application and compliance activities also focus on applicants or current licensees likely to divert firearms from legitimate trade to criminal misuse, or whose history reveals a low level of compliance. Licensees such as pawnbrokers, manufacturers, importers, and NFA dealers are given extra attention in this program. Each region will also develop, in a joint effort with Law Enforcement, specific strategies to address problems unique to their areas.

During FY 1985, 90,153 applications were processed and 2,672 qualification and 9,527 compliance inspections conducted. At the end of the fiscal year, there were 248,794 firearms licensees.

During FY 1986 and FY 1987, approximately 100,000 applications will be processed. The total number of licensees is expected to increase to 280,000 in FY 1986 and to 290,000 in FY 1987. In FY 1986 and FY 1987, 11,600 inspections will be conducted. This is a slight reduction from the FY 1985 level and reflects more involved inspections in joint efforts with Law Enforcement.

In FY 1986 ATF will reduce printing expenses in the firearms area by 25 percent as part of the Gramm Rudman-Hollings reductions. ATF will eliminate the printing of State Laws and Published Ordinances - Firearms.

4. EXPLOSIVES

The Compliance Operations Explosives Program ensures the industry meets the requirements of the laws and regulations by issuing permits and licenses, supporting law enforcement efforts, and contributing to public safety by conducting inspections to ensure the safe and secure storage of explosives. A combination of inspections and educational efforts ensures that explosives are stored safely and free from the risk of theft. ATF's participation in the Federal Interagency Committee addresses problems of regulatory coordination.

Compliance efforts concentrate on keeping explosives use and storage safe, with the emphasis on conducting inspections of those storage facilities which pose the most danger to public safety. They also concentrate on preventing prohibited persons from entering the industry and ensuring new applicants for licenses and permits are adequately informed of laws and regulations governing the safe and secure storage of explosives. Application inspections are conducted on all new applicants.

During FY 1985, 8,272 applications were received and processed. This is the third year of the 3-year renewal process which began in FY 1982. Because of the 3-year cycle, significant reductions in renewal applications received and processed will occur in FY 1986 and FY 1987. A total of 900 qualification and 4,587 compliance inspections were conducted in FY 1985. This large number of inspections reflects the decision to examine all storage facilities in FY 1985 and to evaluate the threat these facilities pose to public safety. In FY 1986 and FY 1987, there will be a decrease in the number of inspections to 3,300 because more involved inspections will be conducted, but only at the facilities identified during the FY 1985 evaluation inspections as posing the most risk to public safety. The total number of licensees and permittees will continue to increase to 11,000.

Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

ACTIVITY II: LAW ENFORCEMENT

ATF's law enforcement programs are committed to reducing crimes within ATF jurisdiction, particularly crimes of violence which most affect our Nation's citizens. Major activities consist of suppressing the illegal use and possession of explosives and destructive devices; suppressing arson crimes; reducing the incidence of possession and misuse of firearms by armed career, habitual, criminals; reducing the incidence of possession, sale and availability of illegal machine guns; preventing organized crime infiltration of the legal liquor industry and prosecuting criminal violations; preventing revenue loss due to large-scale, commercial, illicit manufacture and interstate distribution of non taxpaid distilled spirits; providing assistance and state-of-the-art training to Federal, State and local law enforcement agencies; participating in the Organized Crime Drug Enforcement Task Force (OCDETF) cities to suppress large scale narcotics trafficking through enforcement of firearms and explosive laws; and supporting the U.S. Secret Service and State Department for protection of U.S. Presidents, Vice Presidents, their families, Presidential and Vice Presidential candidates and foreign dignitaries.

The G-R-H reductions will have a direct impact on ATF's FY 1986 law enforcement efforts. We have attempted to minimize this impact by maintaining an adequate staffing level. Since 1977, ATF has lost 26 percent of its special agent work force and during this same time frame taken on additional enforcement responsibilities. Further cuts in our special agent work force would most severely hinder our effectiveness. Therefore, our budgetary reductions are focused on operating funds, including mission travel, permanent change of station moves, equipment, vehicle replacement, specialized investigative equipment, ADP modernization and investigative funds. Prior to the G-R-H reductions, the Bureau had reduced PCS moves by 32 percent, to partially offset the nonrestoration of the 5 percent pay cut. With G R H reductions, the Bureau further reduced PCS moves by an additional 18 percent. Because of more than 85 special agent retirements, some critical positions will remain vacant for extended periods of time, and could cause staffing problems in some offices, impeding program objectives. Also, it is necessary to defer the implementation of the previously justified BVP program, which impacts agent safety.

ATF will curtail all planned automation efforts by 61 percent. ATF's current automated data system (TECS), operated by U.S. Customs, is presently undergoing radical redevelopment and conversion to an updated TECS II system. ATF will continue as a joint participant in the development of TECS II by establishing the basic architecture for data base conversion which will enable eventual utilization of this new system.

The FY 1987 budget request includes the reduction of 60 average positions and $3,066,000 from the previous year, offset by maintaining current level increases of $10,518,000, of which $4,448,000 is for the restoration of the FY 1986 G-R-H reductions.

Program	Fiscal Year 1985		Fiscal Year 1986		Fiscal Year 1987		Increase/Decrease over FY 1986	
	Avg Pos	Amt	Avg Pos	Amt	Avg Pos	Amt	Avg Pos	Amt
1. Alcohol	63	3,990	65	4,062	65	4,469	0	407
2. Tobacco	51	3,234	65	4,062	0	0	65	4,062
3. Firearms	922	58,033	892	55,653	899	61,721	+7	6,068
4. Explosives	814	51,528	810	50,373	808	55,412	-2	5,039
TOTAL	1,850	116,785	1,832	114,150	1,772	121,602	-60	7,452

Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

1. ALCOHOL

ATF investigates criminal violations of the FAA Act and sections of the Internal Revenue Code. Emphasis is placed on suppressing organized criminal infiltration of the legal liquor industry and deterrence of large-scale manufacturers and distributors of non taxpaid alcohol where State and local authorities have insufficient jurisdiction. ATF also provides training to State and local officers in illicit liquor investigative techniques.

During FY 1985, 53 alcohol related cases were initiated and 45 suspects were recommended for prosecution for violating alcohol statutes. In FY 1987, 55 cases will be initiated and 47 suspects will be recommended for prosecution.

As a result of the Deficit Reduction Act, PL 98-369, the distilled spirits excise tax did increase 19 percent from $10.50 to $12.50 a proof gallon on October 1, 1985. The increase could trigger an added incentive to illegally produce non taxpaid spirits. The program will be closely monitored to determine any effects from the tax change.

2. TOBACCO

Public Law 95-575 was enacted on November 2, 1978, to eliminate racketeering in the sale and distribution of cigarettes. Since that time, ATF has provided the leadership, technical expertise and the training which was necessary to enable States to develop their own contraband cigarette programs. During the same time frame, ATF also provided investigative assistance in complex, multijurisdictional tobacco tax frauds. Consequently, the States have developed enforcement capabilities to address the current problem and responsibility for the enforcement effort has been transferred to the States commencing FY 1987.

3. FIREARMS

This program provides resources to combat firearms violations having the greatest detrimental impacts on our society. Investigative priorities are focused on domestic and international trafficking, including trafficking by known international and domestic terrorist groups, organized crime and armed, habitual, career criminals. The 1984 Uniform Crime Report documents that the incidence of firearms involved in murders, aggravated assaults, rapes and robberies is alarmingly high, particularly in the larger urban centers of the United States. The criminal misuse of firearms continues to be a national problem. The Bureau of Justice Statistics reported that 13 percent of the estimated 65.3 million rapes, robberies and assaults that occurred in 1973-82 involved firearms. In 1984, as in previous years, firearms were the dominant weapon used in murders in the United States. Fifty nine percent of those murders, for which a weapon was reported, involved firearms.

The Bureau's firearms program allows ATF to protect our Nation's citizens by prosecuting those violent criminals who use firearms, as well as narcotics violators, terrorists, organized criminals and firearms smugglers. In FY 1985, 55 percent of ATF's firearms defendants had a felony record, 59.9 percent of our defendants were narcotics users or traffickers, 16 percent were armed at arrest and over 30 percent had a history of violence. Many of the defendants fit more than one of those categories. These statistics show the critical nature of the firearms program and its direct relation to providing protection to the public by prosecution of serious offenders.

The Bureau's international trafficking project is aimed at eliminating illegal arms shipments to the Middle East, Latin America and other areas of vital interest to the United States. ATF's objective is to prevent arms smuggling which fuels terrorism and the narcotics traffic in the world today.

Because firearms are a primary tool of terrorists in their campaign of violence, ATF has had a significant impact on their illegal activities. As both domestic and international terrorist groups have dramatically increased, ATF will continue to direct a larger proportion of its resources to combat this alarming trend. During FY 1985, ATF had its most successful year in apprehending and prosecuting members of domestic and international terrorist groups found in violation of Federal firearm laws.

The Bureau maintains the Nation's most competent civilian firearms technology staff at Headquarters, Washington, D.C. Here, firearms tests, classifications and technical determinations are made, at no cost to State or local agencies. The importance of this function is demonstrated by the fact that 1,600 formal technical determinations were made during FY 1985.

ATF's National Firearms Tracing Center is crucial to Federal, State and local law enforcement programs. During FY 1985, the center traced 44,943 firearms which led to the return of many stolen firearms which ATF took into custody. During FY 1987, approximately 40,000 trace requests will be completed.

In FY 1985, 9,187 firearms cases were initiated, and 3,137 suspects were recommended for prosecution. In FY 1987, the Bureau plans to initiate 8,941 cases and recommend 3,073 suspects for prosecution.

In summary, the Law Enforcement activity has objectively examined our Nation's crime problem from an ATF jurisdictional point of view. ATF knows the violent crime rate is too high in the major U.S. cities. ATF has considered alternatives to meet the challenge of providing the safest conditions possible for the public, while making the most efficient use of our limited resources. The best answer available is to address the most violent crimes and criminal groups in our Nation's most populated cities. The Bureau's resources in this program, therefore, will be assigned to geographic areas based on two criteria: violent crime rate and population.

Because of ATF's unique jurisdiction and investigative expertise, the Bureau plays a critical role in the overall success of the OCDETF program. Although 101 positions were allocated in FY 1985, ATF expended the equivalent of 134 positions to combat the drug problems in this country. In addition, approximately 38 percent of ATF firearms defendants were targeted drug traffickers. A total of 277 criminal cases were perfected against 445 defendants, with 1,662 firearms taken into Bureau custody. The Bureau request, 101 positions, includes sufficient funding to continue this program in FY 1987.

During FY 1985, ATF expended approximately 15 positions in protecting candidates during the 1984 Presidential campaign. The commitment to the U.S. Secret Service protection responsibility will begin again in FY 1987 with preparation for the 1988 Presidential election campaign. As a result of candidate protection training, ATF will expend approximately 10 positions in FY 1987. Due to this commitment, Law Enforcement workloads will experience some reduction in all program areas.

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4. EXPLOSIVES

The ATF explosives program protects the public from violence perpetrated by bombings, arsons and explosives related incidents. ATF's emphasis is on aggressive investigation and prosecution of persons responsible for these acts of violence. The Bureau achieves prosecutions and ensures the public safety by immediate response to every possible explosives related criminal activity. These criminal activities encompass a wide range of violations and are perpetuated by diverse groups and individuals. No longer unique, domestic and international terrorists are often included in these individuals and groups. ATF, enforcing its jurisdictional responsibilities and utilizing its investigative expertise, has become increasingly involved in the investigation, apprehension and prosecution of terrorist gang members and those who provide these individuals with illegal explosives. As an example ATF has joined with the FBI and other law enforcement agencies in New York, Washington, D.C. and Boston in forming task forces to investigate terrorist bombings. ATF also traces recovered explosives for other domestic and international law enforcement organizations through its international EXIS and SEAR programs. ATF recognizes that as a result of its jurisdictional authority and investigative expertise it can and has had a significant impact on the illegal activity of terrorists. Highest priority is given to enforcing our explosives violations, including those committed by terrorists.

ATF provides assistance to State and local agencies in complex, multijurisdictional arsons and other explosives crimes, often utilizing ATF's National Response Teams to assist in major scene searches. ATF continually provides state of the art training to State and local agencies in arson for profit investigation, where, both in training and in actual investigations, we emphasize the "task force" approach to solving crimes. An important fact when evaluating the Bureau's arson program is that in FY 1985, ATF saved over $77 million in fraudulent insurance claims not paid. ATF attributes much of the success to the development of the National Response Team and Arson Task Force concepts for use in major fires. ATF also investigates unintentional explosives incidents, generally related to non criminal industrial or commercial activity.

The explosives program is supported by ATF's nationally accredited forensic laboratory. Chemists who are experts in examining bomb and arson evidence provide laboratory analysis and, if required, expert courtroom testimony. ATF services are provided judicially to State and local agencies who lack forensic expertise. Chemists are also assigned to each of the National Response Teams to provide expert on-the-scene examination of debris, parts of destructive devices and technical identifications. ATF maintains the only computerized reporting and retrieval system that provides specific date/shift codes on stolen and recovered explosives. As a result, the Bureau is recognized and used nationally by law enforcement organizations for information on explosives recoveries and seizures.

In FY 1985, ATF recovered a total of 30,199 pounds of explosives, a 32 percent increase over FY 1984. Lost or stolen explosives always have the potential for criminal misuse and terrorist activities. The Bureau's recoveries depict the high emphasis ATF places on explosives investigations and recovery of hazardous explosive materials. This same year, the Bureau initiated 2,062 explosive cases and recommended a total of 791 suspects for prosecution, 118 of those for arson violations. In FY 1986 and FY 1987, the Bureau anticipates initiation of 2,053 cases, which will result in 787 suspects being recommended for prosecution.

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

Federal Funds

General and special funds:

SALARIES AND EXPENSES

For necessary expenses for the Bureau of Alcohol, Tobacco and Firearms, including purchase of three hundred vehicles for police-type use for replacement only; and hire of passenger motor vehicles; hire of aircraft; and services of expert witnesses at such rates as may be determined by the Director; not to exceed $5,000 for official reception and representation expenses; $178,463,000 of which $15,000,000 shall be available solely for the enforcement of the Federal Alcohol Administration Act during fiscal year 1987: Provided, that no funds appropriated herein shall be available for administrative expenses in connection with consolidating or centralizing within the Department of the Treasury the records of receipts and disposition of firearms maintained by Federal firearms licensees or for issuing or carrying out any provisions of the proposed rules of the Department of the Treasury, Bureau of Alcohol, Tobacco and Firearms, on Firearms Regulations, as published in the Federal Register, volume 43, number 55, of March 21, 1978.

Note-A regular 1986 appropriation for this account had not been enacted at the time this budget was prepared. A continuing resolution (P.L. 99-190) provides funds to the extent and in the manner provided for in the conference version of H.R. 3036, Treasury, Postal Service and General Government Appropriations Act, 1986 as amended in P.L. 99-177.

Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1985 Actual	1986 Program		1987 Estimate	Percent of Increase o Decrease Over 1986
		In 1986 Budget	In 1987 Budget 1)		
1. Compliance Operations:					
a. Alcohol:					
Inspections:					
Revenue Protection	1,933	1,800	5,100	2,000	(60.8)
Product and Market Integrity	1,058	950	950	1,000	5.3
Qualification	2,509	2,600	2,500	2,600	4.0
Total Inspections	5,500	5,350	8,550	5,600	(34.5)
No. of Permitees/Proprietors (Establishments)	34,500	37,250	36,000	36,000	0.0
Qualification Applications Processed	8,576	8,600	8,500	8,500	0.0
Revenue Collected ($000):					
Distilled Spirits	3,419,000	4,600,000	4,200,000	4,000,000	(4.8)
Wine	305,000	300,000	300,000	300,000	0.0
Beer	1,553,000	1,700,000	1,700,000	1,700,000	0.0
Refund on Alcohol Products	(110,000)	(100,000)	(110,000)	(110,000)	0.0
Total Revenue	$5,167,000	$6,500,000	$6,090,000	$5,890,000	(3.3)
b. Tobacco:					
Inspections:					
Revenue Protection	502	440	225	225	0.0
Qualification	72	80	75	75	0.0
Total Inspections	574	520	300	300	0.0

1) FY 1986 workloads will vary from those reflected in this budget, due to the reductions imposed by Public Law 99 177.

Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1985 Actual	1986 Program		1987 Estimate	Percent of Increase o Decrease Over 1986
		In 1986 Budget	In 1987 Budget 1>		
No. of Permitees/Proprietors (Establishments)	371	385	385	385	0.0
Qualification Applications Processed	139	150	140	140	0.0
Revenue Collected ($000):	$4,660,000	$2,600,000 2>	$4,600,000	$4,600,000 3>	0.0
c. Firearms:					
Inspections:					
Compliance (Scheduled)	9,527	9,000	9,000	9,000	0.0
Qualification (Initial)	2,672	2,600	2,600	2,600	0.0
Total Inspections	12,199	11,600	11,600	11,600	0.0
Qualification Applications Processed:					
Original (Initial)	37,395	46,000	42,000	45,000	7.1
Renewal (Every Third Year)	52,758	54,000	54,000	75,000	38.9
Total Applications	90,153	100,000	96,000	120,000	25.0
Number of Licensees	248,794	290,000	280,000	290,000	3.6
d. Explosives:					
Inspections:					
Compliance (Scheduled)	4,587	4,400	2,500	2,500	0.0
Qualification (Initial)	900	600	800	800	0.0
Total Inspections	5,487	5,000	3,300	3,300	0.0

1> FY 1986 workloads will vary from those reflected in this budget, due to the reductions imposed by Public Law 99-177.
2> Reduction in cigarette tax to former lower rates, effective October 1, 1985.
3> Congress has twice extended the present cigarette tax past 10/1/85 and it seems likely that it will be permanent. The projection of $2.6 billion will be reinstated if the tax is reduced to the former rate.

Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1985 Actual	1986 Program		1987 Estimate	Percent of Increase or Decrease Over 1986
		In 1986 Budget	In 1987 Budget 1/		
Qualification Applications Processed:					
Original (Initial).....	2,625	2,100	2,300	2,300	0.0
Renewal (Every Third Year).....	5,647	1,500	1,500	1,500	0.0
Total Applications.....	8,272	3,600	3,800	3,800	0.0
No. of Licensee/Permittees.....	9,557	11,700	11,000	11,000	0.0
2. Law Enforcement:					
a. Alcohol:					
Cases Initiated.....	53	55	55	55	0.0
Suspects Recommended for Prosecution	45	24	47	47	0.0
b. Tobacco:					
Cases Initiated.....	36	6	46	0	(100.0)
Suspects Recommended for Prosecution	5	2	6	0	(100.0)
c. Firearms:					
Cases Initiated.....	9,187	8,350	8,870	8,941	0.8
Suspects Recommended for Prosecution	3,137	2,626	3,029	3,073	1.5
Firearms Traces.....	44,943	37,000	40,000	40,000	0.0
d. Explosives:					
Cases Initiated.....	2,062	1,504	2,053	2,053	0.0
Suspects Recommended for Prosecution	791	635	787	787	0.0
Explosives Traces.....	506	360	400	400	0.0

1/ FY 1986 workloads will vary from those reflected in this budget, due to the reductions imposed by Public Law 99 177.

DEPARTMENT OF THE TREASURY

Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

EXPLANATION OF FISCAL YEAR 1987 BUDGET INCREASES AND DECREASES

(Dollars in Thousands)

Other Changes

	Avg Pos	Amt
Increases Necessary to Maintain Current Levels		
1. Net cost of within-grade salary increases required by statute	0	798

This increase provides for the net cost of within-grade step increases and related benefits for civilian personnel in FY 1987.

2. Grade-to-grade promotions	0	547

Special agents and inspectors are hired under training agreements that provide for specified, periodic grade increases from the trainee to journeyman level. The resources requested for grade-to-grade promotions are for 50 percent of the individuals eligible for promotions during FY 1987.

3. Increase in payment to Employee's Compensation Fund	0	625

This increase is based on the final billing for workers' compensation costs incurred for the period July 1, 1984, through June 30, 1985, and represents increase of 14 percent. These resources will be used to reimburse the Labor Department an in accordance with Section 35 of the Federal Employee's Compensation Act (5 U.S.C. 8147).

February 5, 1986

	Avg Pos	Amt
4. Increase in payment to Unemployment Compensation Fund	0	5

This increase is based on historical billings.

5. Increased cost of employee benefits	0	822

This represents the Government's share for increased personnel benefits such as retirement and life insurance. It is representative of the grade population mix within our current personnel authorization. In addition, an increase of 1.15 percent has requested for merit pay cash awards based on the number of GM employees onboard as of June 30, 1985. This requirement is below the guidelines established by OPM, which state that up to 1.5 percent of merit pay employment salaries could be set aside for cash awards.

6. Increased travel and transportation costs	0	273

A 4.1 percent inflation factor has been applied to costs associated with common carriers, commercial and GSA vehicle rentals.

7. Increased cost of permanent change of station moves	0	2,248

This increase is mainly the result of P.L. 98-151 and modification to the Federal Travel Regulations which require the following:

payment for use of private sector relocation services (based on the moves made during FY 1985, we estimate that 95 percent of employees transferred will opt for using a relocation service in lieu of private sale); and

payment of relocation income tax allowance (RITA) for reimbursement of additional Federal, State and local income taxes incurred.

	Avg Pos	Amt
The PCS requirements in the personnel benefits area include relocation services, and payments for appropriate reimbursable tax expenses, coupled with a 4.2 percent increase for real estate costs.		
8. Payment to GSA for space and related services	0	525
This increase is necessary to support GSA appraisals for space currently occupied by ATF personnel and includes a 4.1 percent inflationary rate to provide the same level of special services as received in FY 1986.		
9. Increased cost of postage	0	107
This increase is necessary to fund on a full-year basis the postal increase which went into effect in February 1985.		
10. Increase in the cost of utilities	0	5
This increase has been included to cover anticipated utility surcharges for services rendered after normal working hours.		
11. Increased cost of FTS and other communications	0	105
This increase includes FTS, local telephone services, TRCS, telegraph services and radio site rentals, which are partially offset by a reduction for repairs to radio equipment.		
12. Increased cost of equipment leasing and maintenance	0	200
A 4.1 percent inflation factor has been applied to items such as vehicle rentals, repair and maintenance, and other repair and maintenance contracts.		

	Avg Pos	Amt
13. Increased cost of ADP equipment leasing and maintenance.....	0	261

This increase reflects annualized ADP leasing and maintenance contract costs as a result of ATF's automation efforts.

14. Increased printing costs.....	0	112

The cost of GPO and commercial printing is expected to increase by approximately 7 percent in FY 1987. This is attributable to an increased demand for paper products, and general operation overhead increases such as equipment replacement and maintenance, utilities, labor, etc.

15. Increased cost of outside contracts.....	0	407

This represents an increase of 4.1 percent to permit the same services as provided during FY 1986.

16. Increased cost of reimbursement for services of other Government agencies.....	0	152

A 4.1 percent increase has been included for services provided to ATF by other Federal agencies.

17. Increased supply costs.....	0	276

A 4.1 percent increase will provide the same level of office, ADP, vehicle and other supplies as FY 1986.

Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

	Avg Pos	Amt
18. Increased cost of equipment procurement	0	656

An overall 4.1 percent inflation increase is necessary for the normal replacement of office, ADP, special investigative, police-type vehicles and laboratory equipment.

19. Payments to Social Security Trust Fund	0	777

This increase reflects the impact of the Social Security Amendments of 1983 for Federal employees hired on or after January 1, 1984. It provides the employer's share of social security taxes for all new employees and for temporary civilian employees.

It also includes the impact of the .05 percent tax rate increase for the employer's share of Medicare which is in compliance with the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248).

20. To maintain the FY 1986 program levels reduced by P.L. 99-177	0	7,491

This provides for the restoration of a 13.4 percent reduction taken in nonpersonnel areas in FY 1986 in order to meet an overall 4.3 percent cut imposed by G-R-H legislation. (See the Executive Summary for further detail.)

Subtotal, Maintaining Current Levels	0	16,392

Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

	Avg Pos	Amt
Reductions, Nonrecurring Costs and Savings		
1. Compliance Operations Alcohol Program	(31)	(1,584)
A reduction of 31 average positions and $1,584,000 from the Compliance Operations alcohol program is proposed for FY 1987. This reduction will be confined to the product and market integrity sub program, which oversees the enforcement of the FAA Act. This program was reduced because the tobacco, firearms and explosives programs are already at minimal levels.		
2. Law Enforcement Tobacco Program	(60)	(3,066)
A reduction of 60 average positions and $3,066,000 from the Law Enforcement tobacco program is proposed for FY 1987. Responsibility for the contraband cigarette program will be transferred to the States. The withdrawal of a Federal presence from the enforcement of this law should not reverse the progress made to date i.e., the increase in State tobacco tax collections.		
Subtotal, Reductions, Nonrecurring Costs and Savings	(91)	(4,650)
TOTAL OTHER CHANGES	(91)	11,742
Total Increases or Decreases in FY 1986 Compared with Proposed FY 1985 Authorized Level	(91)	11,742

THE DEPARTMENT OF THE TREASURY
Bureau of Alcohol, Tobacco and Firearms
Standard Classification Schedule
(Direct Obligations Only)

	Appropriation 1985	Authorized Level 1986	Budget Estimate 1987	1987 Increase/ Decrease Over 1986
Total number of permanent positions	3,043	3,043	3,000	(43)
Total average paid employment	2,968	2,941	2,850	(91)
OBJECT CLASSIFICATION				
Personnel Compensation:				
Permanent positions	$89,448,391	$88,965,000	$90,045,000	$1,080,000
Positions other than permanent	1,753,790	920,000	1,302,000	382,000
Other personnel compensation	9,046,826	8,678,000	9,168,000	490,000
Total personnel compensation	$100,249,007	$98,563,000	$100,515,000	$1,952,000
Personnel benefits	18,632,438	18,953,000	21,333,000	2,380,000
Benefits for former personnel	82,596	159,000	161,000	2,000
Travel and transportation of persons	6,303,467	5,722,000	6,597,000	875,000
Transportation of things	1,025,477	924,000	1,067,000	143,000
Standard level user charges	12,759,926	13,760,000	14,072,000	312,000
Communication, utilities and other rent	9,140,885	9,588,000	9,748,000	160,000
Printing and reproduction	1,562,071	971,000	1,320,000	349,000
Other services	10,834,033	9,617,000	12,575,000	2,958,000
Supplies and materials	4,196,342	3,740,000	4,335,000	595,000
Equipment	6,418,338	4,694,000	6,709,000	2,015,000
Insurance claims and indemnities	45,645	30,000	31,000	1,000
Total obligations	$171,250,225	$166,721,000	$178,463,000	$11,742,000
Unobligated balance	862,775	0	0	0
Total appropriation, authorized level and budget estimate	$172,113,000	$166,721,000	$178,463,000	$11,742,000

Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

DETAIL OF PERMANENT POSITIONS

	Appropriation FY 1985	Authorized Level FY 1986	Budget Estimate FY 1987
Direct Program:			
ES 5	1	1	1
ES 4	6	6	6
ES 3	5	5	5
ES 2	1	1	1
ES 1	1	1	1
Subtotal	14	14	14
GS/GM 15	60	57	57
GS/GM 14	124	128	128
GS/GM 13	472	460	462
GS 12	850	848	840
GS 11	327	325	323
GS 10	1	1	1
GS 9	210	209	204
GS 8	11	11	11
GS 7	232	249	232
GS 6	110	109	109
GS 5	347	350	340
GS 4	208	205	202
GS 3	58	58	58
GS 2	13	13	13
Subtotal	3,023	3,023	2,980

Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

DETAIL OF PERMANENT POSITIONS

	Appropriation FY 1985	Authorized Level FY 1986	Budget Estimate FY 1987
Ungraded	6	6	6
Total direct permanent positions	3,043	3,043	3,000
Unfilled positions, end of year	(159)	(143)	(173)
Total direct, permanent employment, end of year	2,884	2,900	2,827

Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

AVERAGE GRADES AND SALARIES

	Appropriation FY 1985	Authorized Level FY 1986	Budget Estimate FY 1987
Average ES salary	$68,100	$68,100	$68,100
Average GS grade	9.94	9.22	9.26
Average GS salary	$31,038	$30,870	$31,761

Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

CONSULTING AND RELATED SERVICES

	Appropriation FY 1985	Authorized Level FY 1986	Budget Estimate FY 1987
Consulting Services	$10	$51	429
Management and Professional Services	15	0	22
Special Studies and Analysis	147	80	82
Management and Support Services for Research and Development	0	0	0
Total Consulting and Related Services	$172	$131	$133

Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

CONSULTING AND RELATED SERVICES

Consulting Services

Consulting services are utilized to assist the Bureau in improvement projects when specialized knowledge or additional support services are not readily available within our existing resources. Some of these projects include a three year review of the financial accounting system, review of the audit, inspection, and special agent functions within the Bureau, as well as reviewing and designing a computer based education program.

Management and Professional Services

These services also are utilized to provide support to the Bureau's improvement projects such as the development and initial piloting of an integrated management training program.

Special Studies and Analysis

Again, these services provide assistance to the Bureau's improvement projects. These studies include the development of an automated prompt payment warehousing system, and productivity improvement (OMB A 76) studies.

THURSDAY, FEBRUARY 27, 1986.

UNITED STATES MINT

WITNESSES

DONNA POPE, DIRECTOR OF THE MINT

EUGENE H. ESSNER, DEPUTY DIRECTOR OF THE MINT

DENNIS J. FISCHER, ASSOCIATE DIRECTOR FOR POLICY AND MANAGEMENT

PAUL W. BATEMAN, DEPUTY TREASURER OF THE UNITED STATES

JILL E. KENT, DEPUTY ASSISTANT SECRETARY FOR DEPARTMENTAL FINANCE AND PLANNING.

Mr. ROYBAL. The Committee will hear from the Director of the Mint.

I would like to welcome Mrs. Pope and her colleagues, and will you proceed in any manner you may desire.

Who will start off the presentation, will you, Mrs. Pope?

Mrs. POPE. Yes, Mr. Chairman.

Mr. Chairman and members of the Committee, it is my pleasure to present for your consideration the fiscal year 1987 budget request for the United States Mint.

And here with me today are Mr. Paul Bateman, Deputy Treasurer; Mr. Dennis Fischer, Associate Director for Policy and Management at the Mint; and Mr. Gene Essner, Deputy Director of the Mint.

Before I review our 1987 request, I would like to take a couple of minutes to review our 1985/1986 activities.

Mr. Chairman, I think we submitted a long statement, but I will not be following the long statement.

Mr. ROYBAL. Without objection, the statement will appear in the record at this point.

[The prepared statement of Mrs. Pope follows:]

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
INTRODUCTORY STATEMENT OF THE HONORABLE DONNA POPE
DIRECTOR OF THE MINT
FOR PRESENTATION TO THE HOUSE SUBCOMMITTEE ON APPROPRIATIONS

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, IT IS MY PLEASURE TO PRESENT FOR YOUR CONSIDERATION THE FISCAL YEAR 1987 BUDGET REQUEST FOR THE UNITED STATES MINT.

BEFORE I REVIEW OUR 1987 REQUEST, I WOULD LIKE TO TAKE A COUPLE OF MINUTES TO REVIEW OUR 1985/1986 ACTIVITIES.

-- WE BEGAN THE STATUE OF LIBERTY - ELLIS ISLAND COMMEMORATIVE COIN PROGRAM WITH A HIGHLY SUCCESSFUL PRE-ISSUE SALES EFFORT. THIS GENERATED OVER $98 MILLION IN GROSS SALES. THESE SALES HAVE ALREADY RAISED OVER $24 MILLION FOR THE RESTORATION OF THE STATUE OF LIBERTY AND ELLIS ISLAND.

-- WE COMPLETED THE OLYMPIC COIN PROGRAM WHICH RESULTED IN OVER $73 MILLION BEING RAISED FOR SUPPORT OF OUR OLYMPIC TEAM IN LOS ANGELES, AS WELL AS, FUTURE TRAINING OF ATHLETES. IN ADDITION, THE UNITED STATES TREASURY WAS BENEFITTED BY AN OPERATING PROFIT OF APPROXIMATELY $8 MILLION AND A PROFIT ON THE SALE OF GOVERNMENT GOLD AND SILVER OF $127 MILLION.

-- WE COMPLETED THE GEORGE WASHINGTON COIN PROGRAM WITH A PROFIT IN EXCESS OF $42 MILLION.

-- We also completed the Gold Medallion program with a contribution to the United States Treasury of $691 million over the period 1980 to 1985.

-- For the first time, the Mint issued a catalog of all its products to its mailing-list customers. This effort resulted a net profit in excess of $5 million.

-- We delivered over 15 billion coins in FY 1985 to the Federal Reserve System. This resulted in a net profit to the Federal Government of $516 million.

-- Some of our research and development projects are beginning to show very productive results.

The Mint's FY 1987 budget request for Salaries and Expenses is $47.808 million and 997 average positions.

This budget request will allow the Mint to produce 17.23 billion coins which is an increase of 2.63 billion coins over FY 1986 projected production. This will satisfy projected requirements of 17.23 billion coins. Our contribution to the Treasury for fiscal year 1987 operations is estimated to be $564 million; $544 million of which is seigniorage on domestic coins and $20 million is from the sale of numismatic items.

The Mint's FY 1987 budget increase of $3.308 million is composed of the following:

- Increases of $3.387 million and 37 average positions to increase coin production;
- Increases of $.275 million for Research and Development;
- Increases of $1.362 million to offset inflation;

- DECREASES OF NON-RECURRING COSTS OF $1.441 MILLION FOR EQUIPMENT AND $.275 MILLION FOR DESIGN/CONSTRUCTION.

RESEARCH AND DEVELOPMENT

IN FY 1985-1986, WE BEGAN SEVERAL RESEARCH AND DEVELOPMENT PROJECTS WITH A VIEW TO ADVANCING THE TECHNOLOGY OF OUR PRODUCTION EQUIPMENT AND PROCESSES. ONLY ONE NEW CONTRACT WILL BE AWARDED IN FY 1987 TO SEEK FURTHER IMPROVEMENTS IN OUR PRODUCTION OPERATIONS.

THREE SPECIFIC PROJECTS HAVE ALREADY REACHED A POINT WHERE WE CAN SEE A RETURN ON OUR INVESTMENT. AN IMPROVED COIN PRESS FEED SYSTEM HAS BEEN DESIGNED AND PASSED A PROTOTYPE TEST. IT IS AN EXCITING INITIAL RESULT AND I LOOK FORWARD TO PRODUCTION TESTING THE SYSTEM ON TEN PRESSES THIS YEAR. WE BELIEVE THIS IMPROVEMENT COULD RESULT IN AT LEAST A 20% AND PERHAPS EVEN A 30% HIGHER OUTPUT PER PRESS. OUR EXPECTATIONS ARE ALSO HIGH FOR A COMPUTER NUMERIC CONTROL TURNING CENTER TO BE USED IN DIE PRODUCTION AND AN AUTOMATED COUNT BAG AND STACK SYSTEM FOR COINS.

EQUIPMENT

THIS ACTIVITY INCLUDES FUNDS FOR THE REPLACEMENT OF WORN OUT/OBSOLETE EQUIPMENT. IT ALSO REQUESTS FUNDS FOR FIVE NEW COINING PRESSES TO REPLACE WORNOUT PRESSES. OUR REQUEST FOR FY 1987 INCLUDES $2.328 MILLION FOR THESE PURPOSES.

DENVER EXPANSION AND IMPROVEMENTS

AS YOU KNOW, IN MAY 1984, A CONSTRUCTION CONTRACT IN THE AMOUNT OF $10,143,000 WAS AWARDED TO CADDELL CONSTRUCTION COMPANY TO COMPLETE THE PLANNED IMPROVEMENTS AT THE DENVER MINT. BUILDING CONSTRUCTION IS EXPECTED TO BE COMPLETED IN THE SUMMER OF 1986.

WITH THE COMPLETION OF CONSTRUCTION AND INSTALLATION OF SEVEN NEW COINING PRESSES, DENVER WILL BE ABLE TO PRODUCE AT A CAPACITY OF 9 BILLION COINS PER YEAR. WE ARE REQUESTING $694,000 TO COMPLETE FUNDING OF AN AUTOMATED MATERIALS HANDLING SYSTEM FOR THE EXPANDED FACILITY.

PERSONNEL

OUR EMPLOYMENT LEVEL FOR FY 1987 WILL BE 1,957 WORKYEARS; 997 FOR APPROPRIATED ACTIVITIES; AND 960 FOR REIMBURSABLE ACTIVITIES. THIS IS 37 ADDITIONAL APPROPRIATED WORKYEARS AND 160 FEWER REIMBURSABLE WORKYEARS THAN WAS AUTHORIZED IN 1986. THE INCREASED FTE FOR APPROPRIATED ACTIVITIES ARE FOR INCREASED COIN PRODUCTION. THE DECREASES IN REIMBURSABLE FTE ARE RELATED TO THE PHASE OUT OF THE STATUE OF LIBERTY PROGRAM.

REIMBURSABLE OPERATIONS

THE MINT'S NUMISMATIC AND MEDAL PROGRAM FOR FY 1987 WILL HAVE AS ITS BASE THE ANNUAL PROOF COIN SETS; ANNUAL UNCIRCULATED COIN SETS, AND CONGRESSIONALLY AUTHORIZED MEDALS. ALL PRODUCTION OPERATIONS AND SALES ACTIVITIES RELATED TO THESE PROGRAMS ARE FINANCED FROM REIMBURSABLE FUNDS. THE MINT EXPECTS TO PRODUCE AND SELL 3.6 MILLION PROOF COIN SETS AND 2.0 MILLION UNCIRCULATED SETS DURING FY 1987. IN EARLY FY 1987, THE MINT WILL COMPLETE THE SALES AND DELIVERY OF THE STATUE OF LIBERTY COINS.

AS A RESULT OF RECENT LEGISLATION, THE MINT WILL BEGIN IN THE FALL OF 1986 SELLING BOTH GOLD AND SILVER BULLION COINS. BOTH BULLION PROGRAMS WILL BECOME A PART OF THE MINT'S RECURRING PROGRAMS OF PROVIDING HIGH QUALITY COINS AND MEDALS TO THE PUBLIC. WE ESTIMATE THAT OUR FIRST FULL YEAR OF BULLION COIN

SALES WILL RESULT IN SALES OF APPROXIMATELY 2.2 MILLION OUNCES OF GOLD AND 4 MILLION OUNCES OF SILVER.

ANNUAL PROOF COIN SETS

THE FIVE-COIN PROOF SET WHICH IS PRODUCED EACH YEAR CONTAINS ONE OF EACH COIN PRODUCED BY THE MINT (CENT THROUGH THE HALF DOLLAR) AND IS ONLY PRODUCED AT THE SAN FRANCISCO ASSAY OFFICE. ALL OF THE COINS HAVE THE "S" MINT MARK AND ARE OF THE HIGHEST QUALITY, WITH SPECIAL ATTENTION GIVEN TO ALL ASPECTS OF COIN PRODUCTION AND HANDLING. THESE SETS ARE SOLD THROUGH THE MINT'S MAILING LIST, OVER-THE-COUNTER AT THE MINT'S FOUR SALES AREAS, AND AT NUMISMATIC AND FINANCIAL CONVENTIONS THROUGHOUT THE YEAR.

UNCIRCULATED COIN SETS

UNCIRCULATED COIN SETS CONTAIN ONE OF EACH CIRCULATION-QUALITY COIN STRUCK BY BOTH THE PHILADELPHIA AND DENVER MINT. UNLIKE COINS IN A PROOF SET, UNCIRCULATED COINS ARE NOT STRUCK ON SPECIAL BLANKS NOR MADE BY A SPECIAL PROCESS.

SUMMARY

THE MINT IS REQUESTING AN APPROPRIATED SALARIES AND EXPENSES BUDGET OF $47,808 MILLION THAT WILL PROVIDE FOR: (1) MEETING PROJECTED COIN DEMAND IN FY 1987; (2) INVESTMENT IN EQUIPMENT TO EXPAND REQUIRED COINAGE CAPABILITY IN THE FUTURE; AND (3) CONTINUED RESEARCH AND DEVELOPMENT TO IMPROVE COINING PROCESSES. WE ARE ALSO REQUESTING AN EXPANSION AND IMPROVEMENTS APPROPRIATION OF $694,000 TO COMPLETE THE DENVER MINT EXPANSION.

THIS CONCLUDES MY PREPARED REMARKS. I WILL BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE.

Mrs. POPE. Thank you very much.

Mr. ROYBAL. Will you proceed, and summarize?

Mrs. POPE. I would like to review our '85/'86 activities. We began the Statue of Liberty-Ellis Island commemorative coin program with a highly successful pre-issue sales effort. It generated $98 million in gross sales, and from those gross sales $24 million has already been raised for the restoration of the Statue of Liberty and Ellis Island.

We completed the Olympic coin program which resulted in over $73 million being raised for the support of our Olympic Team in Los Angeles, as well as for the training of future athletes. In addition, Treasury was benefitted by an operating profit of approximately $8 million, and also a profit on the sale of the Government gold and silver in the coins, of $127 million

We completed the George Washington Commemorative coin program with a profit in excess of $42 million.

We also completed the Gold Medallion program with a contribution to the United States Treasury of $691 million. This came from the profit on the sale of gold over the period of 1980 to 1985.

For the first time, last year, the Mint issued a catalog of its products, which were in inventory, to our mailing list customers, and that resulted in a net profit in excess of $5 million.

We delivered over 15 billion coins in 1985 to the Federal Reserve System, that resulted in a profit on coinage of $516 million.

Some of our research and development projects that we discussed last year when I was here, are beginning to show very productive results.

FY 1987 BUDGET REQUEST

Now, looking to the Mint's 1987 budget request for salaries and expenses, our request is $47.8 million and 997 average positions.

This request will allow the Mint to produce 17.23 billion coins, which is an increase of 2.63 billion coins over the 1986 projected production. This will satisfy the projected requirement of 17.23 billion coins in 1987.

We estimate that our contribution to the Treasury for 1987 will be $564 million; $544 million is the seigniorage or profit on domestic coinage, and $20 million from the sale of numismatic items.

RESEARCH AND DEVELOPMENT

In 1985/1986, we began several R&D projects with a view to advancing the technology of our production equipment and processes. New contracts will be awarded for several additional projects to seek further improvements, however only one new one, in 1987.

Three specific projects have already reached a point where we can see that we will have a favorable return on our investment. An improved coin press feed system has been designed and passed a prototype test. This initially is a very exciting result, and we look forward to production testing the system on 10 presses this year. We believe that this improvement alone could result in at least a 20 percent, and perhaps even a 30 percent higher output per press. Our expectations are also very high for a Computer Numeric Con-

trol Turning Center, to be used in die production, and an Automated Count Bag and Stack System for coins.

DENVER CONSTRUCTION

As you are very well aware, in May of 1984, a construction contract in the amount of $10,143,000 was awarded to Caddell Construction Company to complete the planned improvements at the Denver Mint. Building construction is expected to be completed in the summer of this year.

REIMBURSABLE OPERATIONS

The Mint's numismatic and medal program for 1987 will have as its base the Annual Proof Coin sets; Annual Uncirculated Coin sets, and Congressionally Authorized Medals. All production operations and sales activities of those programs are financed from reimbursable funds. We expect to produce and sell about 3.6 million Proof Sets, and approximately two million Uncirculated Sets in 1987. Also, in 1987 we will complete the sales and delivery of the Statue of Liberty Coins.

As a result of recent legislation, the Mint will begin, in the fall of 1986, selling both gold and silver bullion coins, and we estimate that in our first full year of bullion coin sales we will sell 2.2 million ounces of gold, and four million ounces of silver.

SUMMARY

So, in summary, the Mint is requesting an appropriated S&E budget of $47.8 million that will provide for; (1) meeting projected coin demand in '87; (2) investment in equipment to expand required coinage capability in the future; and (3) continued research and development to improve our coining processes.

Mr. Chairman, as I recall, in the past you indicated that in part you agreed with us, that our Mint was not exactly using modern techniques. So we are trying to remedy that with our R&D projects.

We are also requesting an expansion and improvements appropriation of $694,000 to complete the Denver Mint expansion. The additional money is needed for the completion of a materials handling system.

This concludes my prepared remarks, and I will be happy to answer any questions.

Mr. ROYBAL. Thank you, Mrs. Pope. Your testimony with regard to your sales is quite impressive. Can you tell the Committee the total amount of money that came in as a result of these sales?

Mrs. POPE. From the numismatic, in 1985, $87 million, and in total, with the profit on coinage, close to $600 million profit.

Mr. ROYBAL. That includes both?

Mrs. POPE. Yes. The profit that we turned over to the Treasury.

COIN DEMAND

Mr. ROYBAL. Now, at the present time, what is the current status of coin demand versus coin supply?

Mrs. POPE. Recently coin demand just flattened out, and as a matter of fact, in one year began declining. It was because of that

fact that we contracted with DRI, Data Research Institute, to take a look at the formula, the process by which the Mint forecasts coin demand.

Now, you will recall, in past years in appearing before your Committee, this question has arisen and for many years the Mint used a historical curve. Basically, this applied an eight percent growth to each year's coin demand.

Early in 1981 it was decided that perhaps we ought to take another look at that, and we went to a new formula using the M1 factor, which really accounted for about a five percent growth rate.

Suddenly, in 1983, we saw a drop from our projections in coin demand, and there was a dramatic drop in 1984. So we went to DRI and said, "would you take a look at how we are forecasting our coin demand, and see whether there is a better way to do it".

We received the results from the DRI study, and they have given us large ranges for projections.

This 1987 budget asks to produce enough coins to meet what we think the projected demand will be. That is, we project a demand of 17.2, we are asking to produce 17.2, and our inventories would remain stable.

Mr. ROYBAL. You produce fewer coins than you budgeted for, is that not correct?

Mrs. POPE. That has been the case in the last two years. That is correct. And that was actually troubling us, because we were attempting to project a budget, quite frankly, that was as tight as possible. And our projections of demand were off, and that is why we went to DRI, so that we would not continue to be projecting higher than what we were at the time.

We prepare the budget, as you well know, a year and a half in advance. And then we get into the year and discover that there is not the requirements from the Federal Reserve, and so we cut back on coin production.

I should quickly add that we lapse all that money back to the Treasury, I do not spend it for something else.

DENVER MINT

Mr. ROYBAL. Good. You may remember that we went out to take a look at property that was available at another location in Denver, but it was decided that you were going to go ahead with the modernization of the Denver Mint. You are now telling the Committee that the project is almost completed, that it will be done sometime this year, but that will take an additional amount of funds.

Will you again, for the record, give us the exact amount that is necessary to finish the Denver Mint?

Mrs. POPE. Yes, sir, $694,000 is the expansion and improvement request. And I would like to elaborate on that a little bit, if I might.

As you know, we turned money over to GSA, and they awarded the contract to Caddell Construction. In the original contract there was a requirement for a material handling system. During the period of time, which has turned out to be a longer period of time than I had anticipated, frankly, to get it all done, the Mint was

looking at its basic mission, and seeing whether or not we were going to continue blanking operations inhouse, or whether we would be going to the private sector.

At that point, in discussions with GSA, it was decided that as long as that question had not been resolved we ought not be going forward designing a materials handling system that handles blanks, on the converse, would take out the requirement for the handling of blanks. We felt that we ought to remove the section of the contract that dealt with the material handling system from that original contract. And so it was removed until we could take a better look at what we intended to do.

Because the cost of things go up, the cost of the material handling system, we anticipate to be more than the amount of funds left over from the original contract.

Dennis, what is it we are dealing with GSA to get back a million plus something?

Mr. FISCHER. Nearly $2 million back.

Mrs. POPE. And we anticipate that it will be $2.6 million for the materials handling system.

Mr. ROYBAL. Would you say that the Denver Mint is an up-to-the-minute operation, one that is efficient, and has all the modern equipment that you need, that it is a model that can be used in the future?

Mrs Pope. No, Mr. Chairman.

Mr. ROYBAL. I did not think so. But I wanted to be sure that that was in the record, because there has been some disagreement between your Department and this Committee, as to where that Mint should be located.

I would like to see a situation where the Denver Mint is brought up to a higher standard of efficiency. And I am sure that is your objective also.

I am glad that it is being completed. Does that mean that you will not be asking for any more money for the Denver Mint, at least for some time to come?

Mrs. POPE. Not for expansion purposes.

Mr. ROYBAL. Well, I do not see how you can expand, because you are in such a tight squeeze there, you cannot possibly go any place.

Mrs. POPE. Well, there is some additional room being made available through this expansion program. But in addition to that, I think your question was, will I be asking for any more money for the Denver Mint.

Well, some of our coin presses are dying; they have been in operation for 20 years——

Mr. ROYBAL. Well, yes, for the replacement of equipment I can understand. But I am talking about money for so-called modernization of the building, and its operation in general.

Mrs. POPE. I do not——

Mr. ROYBAL. You would no doubt, ask for money for equipment that is obsolete. That is just part of the general operational costs.

Mrs. POPE. Yes. I do not anticipate asking for additional money for expansion.

FACILITIES MODERNIZATION

Mr. ROYBAL. Now, what about the condition of the various Mint plants? What is the condition of their equipment, and so forth?

Mrs. POPE. As I mentioned, we are attempting to modernize our operations through some of our R&D projects and also through the purchase of some new, modern coining presses. Of course, it is going to take us a while to replace all of the older ones. There is a new coining press out on the market. We have just purchased three of them, but we have not taken delivery yet. It is a marvelous press, striking 700 strokes a minute, single stroke, whereas now our presses are really operating at about 135 strokes a minute. But we strike, in some cases, two coins at once, and sometimes four coins at once, so a maximum would be about 540 coins a minute. So the 700 single strike press is a new, up to date press.

And slowly, in future years, we will be purchasing the new, modern presses. They are also easier to change the dies, the die life should be longer, et cetera.

Our R&D projects also contain a new system for our die shop. And that was practically in the Dark Ages. The turning machines that we are in the process of buying, we have bought two, and we anticipate buying two additional, will then bring the die shop more into the modern age.

As far as the condition of the Mints themselves, we have a great deal of space available in the Philadelphia Mint. In April 1986, GSA is scheduled to award a contract for the renovation of the melting and strip area.

Mr. ROYBAL. So in the future there will be more money needed for the Philadelphia plant, will there not?

Mrs. POPE. Yes, because we anticipate using that available space for any future expansion needs that are necessary. There is a huge amount of space available there.

Mr. ROYBAL. Do you mean you intend to make the Philadelphia plant bigger and better than Denver's?

Mrs. POPE. Because of the space being available, that is where the space is to expand, for future production needs. I do not know whether it is going to be better. It will be bigger.

Mr. ROYBAL. Well, if it is bigger, it should be better. With more modern and up-to-date equipment, if we put it in there, it should be better. But any way, that is in the future.

Mrs. POPE. Yes.

Mr. ROYBAL. And we hope to see that that does happen, and that you get the best of equipment that is available, and use it, and continue to improve your operation.

We commend you for the work you have done to this point. And wish you every success in continuing the modernization, and making this operation of yours the very best that one could find any place on earth.

Mrs. POPE. Thank you, Mr. Chairman.

PROJECTED PROFIT

Mr. ROYBAL. But I have one other question, and that is with regard to the Proof and Mint Coinage in 1986 and 1987. How much revenue would you be expecting from that?

Mrs. POPE. In 1987 we are projecting a $20 million profit. Approximately $16 million from the sale of Proof Sets, and about $4 million from the sale of Uncirculated Sets.

Mr. ROYBAL. Mr. Coleman.

Mr. COLEMAN. Thank you, Mr. Chairman.

BUDGET REQUEST

The only question I have really is relative to the increase in the budget request, It is about $3.3 million, as I understand it, above last year's, or the FY '86 level?

I understand there was a $2 million cut as a result of Gramm-Rudman. The estimated production of coins, as I remember was, 16.2 billion coins, but that was reduced to 14.6 billion. Is that correct?

Mrs. POPE. That is right.

Mr. COLEMAN. And for FY '87 you are anticipating a production of 17.2 billion.

Mrs. POPE. That is right.

Mr. COLEMAN. At the cost of $39,293,000? To meet an anticipated demand of an equal amount, you are having to anticipate what will happen with coins.

I saw the Wall Street Journal article the other day where if many horders came in out of the cold, and said they will give back those pennies. And I saw your reasoning, it may be correct, I do not think you were wrong, personally.

But then I question what, in terms of new coinage, at the time you were working on the budget, how much of that 17.2 billion anticipated in 1987, and of the $39.2 million, how much of that would have been for additional production of pennies? What I am asking, in other words, are we going to be able find a reduction because now we have more pennies available to us?

Mrs. POPE. Actually, I was about to say that we took that into account when we developed this budget, and we did, to some degree, because we had already seen some evidence that the penny demand was declining, when we built this budget.

However, we are not absolutely certain yet what is going to happen with coin demand in the future. And as I said earlier, that is why we had DRI look at it.

And to be safe, we asked to produce this many pennies. That is our best projection. We did take into account the fact, however, that the penny shortage was over at the time we built the budget.

Do you have a figure there, Dennis that gives—go ahead.

Mr. FISCHER. Sir, we estimate that in FY 1987 we would produce about 13.1 billion pennies. The other denominations would increase approximately 500 million. But the bulk of that 2.6 billion increase in coin production is in the penny.

Mrs. POPE. If I might, I would just like to clarify one fine point. And that is that actually because coin demand was lessening, slackening off, and we could see that, we had already cut back on our coin production, because of our inventories growing so dramatically, before we got the two million Gramm-Rudman cut.

Certainly, that made the cut easier to take. But we would have cut back on production, with or without the Gramm-Rudman.

Mr. COLEMAN. All right. This shows about, 13.115 billion pennies, bringing '87 up from an estimated 10.9 billion in fiscal year '86, which is about a 20 percent increase, and that is the reason.

I understand yours is a very flighty situation, in what you have to supply. However, I think we probably could set an example, with Gramm-Rudman, with you giving us better information, as we get closer to actually drafting the dollar amount. I know we are talking pennies here.

[Laughter.]

Mr. COLEMAN. My major point is, you are keeping us informed, and that is one thing I would like to have improve.

Mrs. POPE. Certainly.

Mr. COLEMAN. We are going to ask other agencies to do similar things, in terms of budgets. But where we have got some of the changes beyond your Agency's specific control, for example, more pennies on the market, seems to me that if you could keep us kind of updated, as we go along, on a monthly basis, perhaps, so that we at least get your best estimate, we can cut some costs in targeting, and target it there.

We might, in the long term, be helping ourselves in a lot of different areas if we would try to do that. One of the problems I found, as a newer member of this Committee, is that we get these numbers, and we act like they are in concrete, and we all know that things change. And so, a lot of times within agencies we like to give them a little leeway, and I think that is probably even a better way to do it, because some agencies will spend it better, or not even spend it, and we will wind off even better off yet.

On the other hand, I think it is tougher for us to meet our budget targets if we do not do that. So I would appreciate it if you know of any changes that you foresee you could inform the Committee if it would result in budget savings in FY '87.

Today, if you were to sit back and go through the same process, again you may say, no, we do not need, we do not anticipate a 20 percent increase in pennies, we anticipate a 15 percent increase.

All I am saying, that gives us a little bit more leeway in terms of those dollars, and I would just like to ask you if you could not please keep us informed.

Mrs. POPE. As we get further into this year, I think perhaps we can tell better. I should also add quickly, the purpose of making coinage really is not to make a profit, but you should not lose sight of the fact that if we make less pennies there really is less profit going into the Treasury. So while you may save some money on one hand, you are losing more on the other.

Mr. COLEMAN. That is right But let me say I argued the same thing with Customs every time they come in here. I tell them how many more dollars we collect, you know, for the dollars spent, so let us print a lot more dollars.

Unfortunately, I can never sell that to the Administration in terms of getting the personnel I think we need in Customs, but I notice that you got the number of personnel it takes for this additional production, and that is the reason I am interested, if you could relate that just in dollars, numbers, coins, and personnel, as we go along. I think they will be helpful to the Committee in many ways.

Thank you, Mr. Chairman.

Mr. ROYBAL. Thank you, Mr. Coleman.

Mrs. Pope, I would like to thank you and your colleagues for your presentation this morning.

Mrs. POPE. Thank you, it was my pleasure.

[The justifications follow:]

58-906 O—86——9

Salaries and Expenses, United States Mint

DEPARTMENT OF THE TREASURY

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1986
(Dollars in Thousands)

	Permanent Positions	Average Positions	Amount
FY 1986 Appropriation (Continuing Resolution) Enacted by Congress	1,072	960	46,500
Adjustments:			
(1) Reductions Under P.L.99-177			-2,000
Proposed Authorized Level for FY 1986	1,072	960	44,500
Estimate for FY 1987	1,117	997	47,808

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1987

	APPROPRIATION FY 1985		AUTHORIZED LEVEL FY 1986		BUDGET ESTIMATE FY 1987		Increase or Decrease (-) for FY 1987					
							Total Changes		Program Changes		Other Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
1. Manufacture of Coins (domestic) [1/]	849	36,137	813	35,019	850	39,293	37	4,274	37	1,387	---	2,887
2. Protection of Monetary Metals and Coins	148	4,512	147	4,662	147	4,862	---	200	---	---	---	200
3. Research and Development		554	---	1,050	---	1,325	---	275	---	275	---	---
4. Replacement of Equipment	---	2,173	---	3,769	---	2,328	---	-1,441	---	---	---	-1,441
Unobligated Balance		4,295										
Total appropriation, authorized level, and budget estimate	997	47,671	960	44,500	997	47,808	37	3,308	37	1,662	---	1,646
Permanent positions established	(1,107)		(1,072)		(1,117)		(45)		(45)		(---)	

[1/] The following activities have been consolidated: (a) Manufacture of Coins (domestic), and (b) Processing Deposits and Issues of Monetary Metals and Coins.

Salaries and Expenses, United States Mint

Summary Explanation of Changes Requested Fiscal Year 1987
(Dollars in Thousands)

	COINING ACTIVITY 1			PROTECTION ACTIVITY 2			RESEARCH ACTIVITY 3			EQUIPMENT ACTIVITY 4			TOTAL		
	PO	AP	Amount	PO	AP	Amount	PO	AP	Amount	PO	AP	Amount	PO	AP	Amount
Program Increases:															
1. Research and development	---	---	---	---	---	---	---	---	275	---	---	---	---	---	275
2. Increase coin production	45	37	1,387	---	---	---	---	---	---	---	---	---	45	37	1,387
Subtotal	45	37	1,387	---	---	---	---	---	275	---	---	---	45	37	1,662
Other Changes:															
Increases necessary to maintain current levels:															
1. Net cost of within grade salary increase required by statue	---	---	178	---	---	33	---	---	---	---	---	---	---	---	211
2. Annualization of wageboard increases	---	---	586	---	---	---	---	---	---	---	---	---	---	---	586
3. Increased cost of travel and transportation	---	---	18	---	---	2	---	---	---	---	---	---	---	---	20
4. Increased cost of utilities	---	---	139	---	---	61	---	---	---	---	---	---	---	---	200
5. Increased cost of printing	---	---	6	---	---	---	---	---	---	---	---	---	---	---	6
6. Increase cost of other services	---	---	108	---	---	48	---	---	---	---	---	---	---	---	156
7. Increased cost of supplies	---	---	127	---	---	56	---	---	---	---	---	---	---	---	183
8. Maintaining FY 1986 program levels reduced by P.L.99-177	---	---	2,000	---	---	---	---	---	---	---	---	---	---	---	2,000
Subtotal, Other Increases	---	---	3,162	---	---	200	---	---	---	---	---	---	---	---	3,362
Reduction, Non-Recurring Costs and Savings:															
1. Non-recurring costs of design/ construction	---	---	-275	---	---	---	---	---	---	---	---	---	---	---	-275
2. Non-recurring cost of equipment	---	---	---	---	---	---	---	---	---	---	---	-1,441	---	---	-1,441
Subtotal, Reduction, Non-Recurring costs and Savings	---	---	-275	---	---	---	---	---	---	---	---	-1,441	---	---	-1,716
Total, Other Changes	45	37	2,887	---	---	200	---	---	---	---	---	-1,441	---	---	1,646
Total Increases or Decreases 1987 compared with Proposed Authorized Level	45	37	4,274	---	---	200	---	---	275	---	---	-1,441	45	37	3,308

Salaries and Expenses, United States Mint

Impact of
FY 1986 Gramm-Rudman-Hollings Budget Reduction

- Impact: Production of domestic coins will be reduced from 16.240 billion to 14.6 billion coins.
- Services: Production at the lower level will not adversely impact the supply of coinage for the Nation's commerce.
- Effect: Because demand for coins has decreased from original estimates, there will be no adverse impact on the Mint's ability to fulfill its mission. Should demand for coins unexpectedly increase, the demand can be met from inventories.

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UNITED STATES MINT
SUMMARY OF BUDGET ESTIMATES

The United States Mint is responsible for:

- Manufacturing all U.S. coins
- Distributing coins to and among Federal Reserve Banks and branches, who release them to commercial banks; and
- Maintaining physical custody of Treasury stocks of gold and silver and handling various deposit transactions.

Fiscal Year 1986
Salaries and Expenses

The United States Mint appropriation, as approved by the Congress in the Continuing Resolution (P.L. 99-190), totals $46,500,000 and 960 average positions. An adjustment is proposed through a proposed recision.

Proposed Adjustment:

(1) Proposed Recision -- A recision proposal of $2.0 million is included to implement P.L. 99-177,Gramm-Rudman-Hollings budget reductions.

The proposed authorized level for FY 1986 is $44,500,000 and 960 average position. The Mint was budgeted to produce 16.240 billion coins. As a result of an unanticipated decline in coin demand in FY 1985 which has continued into FY 1986, coin inventory is higher than expected. Therefore, the Mint reduced FY 1986 planned coin production to 14.6 billion coins.

Fiscal Year 1987

Salaries and Expenses

The budget for FY 1987 proposes an appropriation level of $47,808,000 and 997 average positions. This is an increase of $3,308,000 and 37 average position above the proposed authorized level for FY 1986 and will allow for the production and shipment of 17.230 billion coins.

The proposed budget will allow for the following:

- Program increases totalling $1,387,000 and 37 average positions for increased coin production and $275,000 for research and development;
- Increases of $3,362,000 to maintain current levels, and;
- Reductions of $275,000 for non-recurring costs of design/construction and $1,441,000 for non-recurring cost of equipment.

Expansion and Improvements

In FY 1987, the Mint is requesting $694,000 to complete the Denver Mint Materials Handling System. The requested amount will fund completion of an automated materials handling system for the Denver Mint. This system is essential to the efficient functioning of the expanded Denver Mint.

SUMMARY JUSTIFICATION OF FY 1987 BUDGET ESTIMATES

The United States Mint manufactures coins, receives gold and silver bullion, and safeguards the Government's holdings of monetary metals.

The Mint is requesting 997 average positions and $47,808,000 to accomplish FY 1987 programs. This is a net increase of 37 average positions and a net increase of $3,308,000 over FY 1986. The change in 1987 consists of $1,662,000 for program increases: $3,362,000 to maintain current levels, offset by decreases of $1,716,000. These changes are related to the Mint's activities as follows:

1. Manufacture of coins (domestic). The manufacture of domestic coins is the major appropriated activity of the Mint. Coins are ordered from the Mint by the Federal Reserve Banks in quantities required for the Country's business transactions. Thus, the volume of the coinage program is determined by the public need for coins. In fiscal years 1986 and 1987, the United States Mint will produce a volume of coin to satisfy the requirements of the Federal Reserve Banks.

In FY 1985, a total of 15.307 billion coins were produced at a cost to the appropriation of $36,137,000.

In FY 1986, we plan to manufacture 14.600 billion coins at a cost of $35,019,000.

In FY 1987, the Mint plans to produce 17.230 billion coins at a cost to the appropriation of $39,293,000.

Of the 17.230 billion pieces planned for 1987, 13.1 billion will be cents.

Appropriated costs for producing coins exclude: cost of metals, storing of metals, and transportation charges of metals, blanks, and coins. These costs are funded by the Coinage Metal Fund and the Coinage Profit Fund.

Beginning with the FY 1987 budget, the Mint has combined two (2) activities: (a) Manufacture of coins (domestic) and (b) Processing deposits and issues of monetary metals and coins. The Mint believes that by combining both activities it can more accurately reflect the cost of providing domestic coin. The combined activities will be called Manufacture of Coins (domestic).

2. Protection of monetary metals and coins. The United States Mint is responsible for physical custody of the Government's stock of gold and silver bullion and coin, which is located at five different Mint institutions.

In FY 1987, the Mint is requesting $4,862,000, a net increase of $200,000 from the FY 1986 proposed authorized level.

3. Research and development. In FY 1985/86, the Mint has begun several Research and Development projects. Successful results of these efforts can contribute to substantial savings in the future in both equipment procurements and operating personnel. Due to the difficulty of coordinating multiple research and development projects in which the results of the first projects are expected to contribute to other projects, the funds requested in FY 1986 and FY 1987 are to remain available until expended.

4. Equipment acquisition The Mint is requesting $2,328,000 for replacement of equipment in FY 1987. This activity funds the replacement of worn out and obsolete equipment.

UNITED STATES MINT

SALARIES AND EXPENSES

For necessary expenses of the United States Mint; $47,808,000 of which $1,325,000 shall remain available until expended for research and development projects. (Chapter 51, Title 31, United States Code; additional authorizing legislation to be proposed.)

NOTE: A regular 1986 appropriation for this account had not been enacted at the time this budget was prepared. A continuing resolution (Public Law 99-190) provides funds to the extent and in the manner provided for in the conference version of H.R. 3036, Treasury, Postal Service and General Government Appropriations Act, 1986, as amended, in P.L. 99-190.

SELECTED WORKLOAD DATA
(In Thousands)

Activity and Principal Workload Factors	1985 Actual	1986 Program in 1986 Budget	1986 Program in 1987 Estimate	1987 Estimate	Percent of Increase (Decrease) Over 1986
1. Manufacture of coins (domestic):					
a. Total coins produced	15,306,867	16,240,000	14,600,000	17,230,000	+18.01
b. Coin Demand	13,967,000	18,440,000	14,763,000	17,230,000	+16.71
c. Combined Mint/FRB Inventory, end of year	8,973,000	5,103,000	8,810,000	8,810,000	---
2. Processing deposits and issues of monetary metals and coins:					
a. Gold receipts and disbursements (value in dollars)	$ 6,921	$ 30,000	$ 7,000	$ 7,000	---
b. Silver receipts and disbursements (fine ounces)	1,463	3,500	1,500	1,500	---
c. Domestic coins delivered (face value)	$605,751	$698,000	$596,110	$729,200	+22.33

COINAGE COSTS FINANCED BY APPROPRIATION & COINAGE METAL FUND
FY 1985 - Actual

	Production (Millions)	Unit Cost Per Thousand: S & E Appro'n (Mfg.)	Unit Cost Per Thousand: Coinage Metal Fund	Unit Cost Per Thousand: Total Unit Cost	Funding (thousands): S & E Appro'n	Funding (thousands): Coinage Metal Fund	Funding (thousands): Total
1¢	11,330	$ 1.65	$ 4.49	$ 6.14	$18,736	$ 50,816	$ 69,552
5¢	1,136	4.16	19.05	23.21	4,724	21,646	26,370
10¢	1,427	3.40	8.77	12.17	4,858	12,509	17,367
25¢	1,370	5.09	21.34	26.43	6,971	29,231	36,202
50¢	44	11.83	42.64	54.47	515	1,858	2,373
Total	15,307				$35,804	$116,060	$151,864
Less: Depreciation					1,352	---	1,352
					$34,452	$116,060	$150,517
Add: 1/ Coinage Profit Fund Expenditures							2,696
Deposits					2,033		2,033
Changes in Selected Resources					(348)		(348)
Total Cost Less Depreciation					$36,137		$154,893

1/ Coinage Profit Fund pays cost of distributing coins.

COINAGE COSTS FINANCED BY APPROPRIATION & COINAGE METAL FUND
FY 1986 - Estimate

	Production (Millions)	Unit Cost Per Thousand: S & E Appro'n (Mfg.)	Unit Cost Per Thousand: Coinage Metal Fund	Unit Cost Per Thousand: Total Unit Cost	Funding (thousands): S & E Appro'n	Funding (thousands): Coinage Metal Fund	Funding (thousands): Total
1¢	10,944	$ 1.71	4.35	6.06	$18,724	$ 47,615	$ 66,339
5¢	1,177	4.09	16.90	20.99	4,813	19,889	24,702
10¢	1,356	3.23	9.15	12.38	4,378	12,405	16,783
25¢	1,087	5.13	22.79	27.92	5,580	24,770	30,350
50¢	36	10.75	45.58	56.33	387	1,641	2,028
Total	14,600				$33,882	$106,320	$140,202
Less: Depreciation					1,445	---	1,445
					$32,437	$106,320	$138,757
Add: 1/ Coinage Profit Fund Expenditures							3,852
Deposits					2,182		2,182
Design/Construction					400		400
Total Cost Less Depreciation					$35,019		$145,191

1/ Coinage Profit Fund pays cost of distributing coins.

COINAGE COSTS FINANCED BY APPROPRIATION & COINAGE METAL FUND
FY 1987 - Estimate

	Production (Millions)	Unit Cost Per Thousand: S & E Appro'n (Mfg.)	Unit Cost Per Thousand: Coinage Metal Fund	Unit Cost Per Thousand: Total Unit Cost	Funding (thousands): S & E Appro'n	Funding (thousands): Coinage Metal Fund	Funding (thousands): Total
1¢	13,115	$ 1.59	$ 4.52	$ 6.11	$20,917	$ 59,268	$ 80,185
5¢	1,113	4.04	17.55	21.59	4,499	19,532	24,031
10¢	1,472	3.34	9.53	12.87	4,907	14,031	18,938
25¢	1,495	4.90	23.74	28.64	7,328	35,494	42,822
50¢	35	11.32	47.45	58.77	396	1,661	2,057
Total	17,230				$38,047	$129,986	$168,033
Less: Depreciation					1,565	---	1,565
					$36,482	$129,986	$166,468
Add: 1/ Coinage Profit Fund Expenditures							3,816
Deposits					2,411		2,411
Design/Construction					400		400
Total Cost Less Depreciation					$39,293		$173,095

1/ Coinage Profit Fund pays cost of distributing coins.

Salaries and Expenses, United States Mint

SUMMARY OF EMPLOYMENT
(Number of Average Positions)

	Actual 1985	Estimate 1986	Estimate 1987	Increase or Decrease for 1987 Total	Program Changes	Other
Manufacturing Trades and Crafts (Wage Board Employees)	568	532	569	37	37	---
Protective Force	148	147	147	---	---	---
All Other	281	281	281	---	---	---
Total Average Positions	997	960	997	37	37	---

Salaries and Expenses, United States Mint

Current Year Data - In FY 1986, the Mint was budgeted to produce 16.24 billion coins. As a result of an unanticipated decline in coin demand in FY 1985 and continuing into FY 1986, coin inventory is higher than expected. Therefore, the Mint took steps to reduce FY 1986 production to 14.6 billion coins.

The funds that will be available by reducing coin production will be used to: (a) live within the resources available in the continuing resolution, and (b) absorb a portion of the Gramm-Rudman-Hollings budget reduction.

General Comments - The following presentation is to justify changes requested in FY 1987; (a) increases necessary to maintain current levels, and (b) reductions for nonrecurring costs and savings. The justification is presented for each budget activity within the United States Mint which represents a function or mission of the Mint.

Activity 1

Manufacture of Coins (domestic) The principle mission of the Mint is to produce coins for the nation's commerce. Production is based on forecasts of need prepared within the United States Mint and on requests for coin from the Federal Reserve.

The FY 1987 request for this activity will allow the Mint to produce 17.230 billion coins. This production will satisfy the projected requirement of 17.230 billion coins and still maintain inventories at levels necessary to insure an adequate coin supply for the nation's economy. This activity has been combined with the activity "Processing deposits and issues of monetary metals and coins." This combination will allow the Mint to more accurately reflect the costs of providing domestic coin. A program increase is requested to increase coin production to 17.230 billion coins.

(Dollars in Thousands)

	Permanent Positions	Ave. Pos.	Amount
FY 1986 Base	924	813	$35,019
Program increases	45	37	1,387
Other changes	---	---	3,162
Nonrecurring costs and savings	---	---	-275
FY 1987 Request	969	850	$39,293

The significant increases in other changes are: annualization of wageboard increases; increased within-grades; increased utilities; and maintaining FY 1986 program levels reduced by P.L. 99-177. The savings in this activity is a non-recurring cost for design/construction.

Activity 2

Protection of Monetary Metals and Coins This activity provides security forces and devices to ensure the safekeeping of finished coin and Treasury's stocks of precious metals.

(Dollars in Thousands)

	Permanent Positions	Ave. Pos.	Amount
FY 1986 Base	148	147	$4,662
Other Changes	---	---	200
FY 1987 Request	148	147	$4,862

The significant increases in this activity are for increased utilities and within-grade increases.

Activity 3

Research and Development

	(Dollars in Thousands) Permanent Positions	Ave. Pos.	Amount
FY 1986 Base	---	---	$1,050
Program Increase	---	---	275
FY 1987 Request	---	---	$1,325

The Mint is requesting funding for Research and Development to continue exploring the application of technological improvements to the domestic coining process. Success in these projects can lead to future savings and productivity increases. The Mint is proposing several Research and Development projects in fiscal years 1986 and 1987. The funds requested in FY 1986 are no year funds and the funds requested for FY 1987 are proposed to be no year funds within the Salaries and Expenses Appropriation and to remain available until expended.

Activity 4

Replacement of Equipment This activity funds the Mint's program of upgrading and replacing necessary equipment for all Mint missions, i.e., coin production and protection.

	(Dollars in Thousands) Permanent Positions	Ave. Pos.	Amount
FY 1986 Base	---	---	$ 3,769
Non-recurring costs and savings	---	---	-1,441
FY 1987 Request	---	---	$ 2,328

The funds requested for equipment in FY 1987 represent a net decrease of $1,441,000 over FY 1986. The funds requested are required to replace worn out and obsolete equipment.

Increases to Maintain Current Level

1. Net cost of within-grade salary increases required by statute..... $ 211,000

   This increase is required for the cost of within-grade step increases and related benefits for civilian personnel in FY 1986.

2. Annualization of Wageboard Increases..... $ 586,000

3. Increased cost of travel and transportation..... $ 20,000

   An additional $20,000 is required to cover increases in rates and fares.

4. Increased utility cost..... $ 200,000

   An increase of $200,000 is required in FY 1987 for increased cost of utilities in the Mint's coin production facilities and bullion depositories.

5. Increased printing costs..... $ 6,000

   Based on projections provided by the Government Printing Office, it is anticipated that $6,000 will be required for the increased cost of printing.

6. Increased cost of other services..... $ 156,000

   This increase of $156,000 will provide for inflationary cost increases for other services, e.g. maintenance contracts and miscellaneous services.

7. Increased cost of supplies..... $ 183,000

   This increase of $183,000 is necessary to fund costs of supplies that are required in support of the Mint's production facilities.

8. Maintaining FY 1986 program levels reduced by P.L. 99-177..... $ 2,000,000

This item is the effect of the FY 1986 reduction required by P.L. 99-177.

Reduction, Non-Recurring Costs and Savings

	PO	AP	$
1. Non-recurring costs of design/construction.....	---	---	$ -275,000

This non-recurring cost is the result of funding required in in FY 1986 for design/construction that will not be needed in FY 1987.

2. Non-recurring costs of equipment.....	---	---	$-1,441,000

This non-recurring cost is the net result of not purchasing as many high speed coining presses in FY 1987, and the non-recurring cost of purchasing sound enclosures.

TREASURY DEPARTMENT
SALARIES AND EXPENSES, UNITED STATES MINT
STANDARD CLASSIFICATION SCHEDULE
(direct obligations only)

	Appropriation 1985	Authorized Level 1986	Budget Estimate 1987	1987 Increase/ Decrease over 1986
Total number of permanent positions	1,107	1,072	1,117	+45
Average paid employment	997	960	997	+37
Objective Classification				
Personnel Compensation:				
Permanent positions	$24,672,295	$23,158,000	$25,241,000	$ 2,083,000
Positions other than permanent	801,461	1,125,000	1,248,000	123,000
Other personnel compensation	650,030	750,000	750,000	---
Total personnel compensation	$26,123,786	$25,033,000	$27,239,000	$ 2,206,000
Personnel benefits	$ 4,051,413	$ 3,839,000	$ 4,125,000	$ 286,000
Benefits for former personnel	9,571	---	---	---
Travel and transportation of persons	203,079	216,000	225,000	9,000
Transportation of things	258,921	271,000	282,000	11,000
Standard Level User Charges	529,434	486,000	486,000	---
Other rent, communications and utilities	3,119,485	3,573,000	4,420,000	847,000
Printing and reproduction	91,409	129,000	146,000	17,000
Other services	3,040,521	2,476,000	2,857,000	381,000
Supplies and materials	3,469,484	3,632,000	4,499,000	867,000
Equipment	2,173,213	4,444,000	3,128,000	(1,316,000)
Land and structures	299,628	400,000	400,000	---
Insurance claims and indemnities	5,759	1,000	1,000	---
Total Direct Obligations	$43,375,703	$44,500,000	$47,808,000	$ 3,308,000
Unobligated Balance	4,295,297	---	---	---
Total appropriation, authorized level and budget estimate	$47,671,000	$44,500,000	$47,808,000	$ 3,308,000

Salaries and Expenses, United States Mint

DETAIL OF PERMANENT POSITIONS

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Direct Program:			
ES-4	3	3	3
Subtotal	3	3	3
GS-18	1	1	1
GS/GM-15	12	12	12
GS/GM-14	18	18	18
GS/GM-13	30	30	30
GS-13	4	4	4
GS-12	50	50	50
GS-11	35	35	35
GS-10	5	5	5
GS-9	27	27	27
GS-8	20	20	20
GS-7	47	47	47
GS-6	39	39	39
GS-5	144	144	144
GS-4	59	59	59
GS-3	9	9	9
GS-2	2	2	2
Subtotal	502	502	502
Ungraded	602	567	612
Subtotal	1,107	1,072	1,117

Salaries and Expenses, United States Mint

DETAIL OF PERMANENT POSITIONS

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Reimbursable Program:			
GS/GM-15	1	1	1
GS/GM-14	2	2	2
GS/GM-13	5	5	5
GS-13	26	26	26
GS-12	9	9	9
GS-11	13	13	13
GS-10	1	1	1
GS-9	9	9	9
GS-8	7	7	7
GS-7	20	20	20
GS-6	17	17	17
GS-5	76	76	76
GS-4	27	27	27
GS-3	19	19	19
GS-2	2	2	2
Subtotal	234	234	234
Ungraded	452	452	452
Subtotal	686	686	686
Total permanent positions	1,793	1,758	1,803
Unfilled positions, end of year	-245	-85	-84
Total permanent employment, end of year	1,548	1,673	1,719

Salaries and Expenses, United States Mint

AVERAGE GRADES AND SALARIES

	Appropriation FY1985	Authorized FY1986	Estimate FY1987
Direct Program:			
Average ES salary	$68,700	$68,700	$68,700
Average GS grade	7.74	7.74	7.74
Average GS salary	$25,313	$25,566	$25,822
Average salary of ungraded positions	$24,644	$24,890	$25,139
Reimbursable Program:			
Average GS grade	6.99	6.99	6.99
Average GS salary	$20,048	$20,248	$20,451
Average salary of ungraded positions	$26,539	$26,804	$26,539

Salaries and Expenses, United States Mint

Consulting and Related Services

The Mint's primary use of consulting and related services in FY 1986 and FY 1987 is in connection with research and development projects. Successful results of the program may contribute to substantial savings in the future in both equipment procurements and operating personnel.

The overall objective of our Research and Development Program is to automate a number of our operations and therefore increase productivity. Nearly all of the equipment being utilized in coin manufacturing operations was purchased years ago and is not considered state of the art. Most importantly, very few operations are automated. The Mint's Research and Development Program is focusing on updating these processes.

Salaries and Expenses, United States Mint

CONSULTING AND RELATED SERVICES
(in thousands of dollars)

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate
Consulting Services	199	---	---
Management and Professional Services	573	100	---
Special Studies and Analysis	13	---	---
Management and Support Services for Research and Development	554	375	525
Total Consulting and Related Services	1,339	475	525

DEPARTMENT OF THE TREASURY

Expansion and Improvements, United States Mint

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1986
(In Thousands of Dollars)

	Amount
FY 1987 Appropriation (Continuing Resolution) Enacted by Congress	---
Estimate, FY 1987	$694

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1987
(Dollars in Thousands)

	APPROPRIATION FY 1985		AUTHORIZED LEVEL FY 1986		BUDGET ESTIMATE FY 1987		Increase or Decrease (-) for FY 1987					
							Total Changes		Program Changes		Other Changes	
	Avg.Pos.	Amount	Avg.Pos.	Amount	Avg.Pos.	Amount	Avg.Pos.	Amount	Avg.Pos.	Amount	Avg.Pos.	Amount
1. Expansion and Improvements	---	---	---	---	---	694	---	---	---	---	---	---
Total Appropriation or Estimate	---	---	---	---	---	694	---	---	---	---	---	---

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DEPARTMENT OF THE TREASURY

Expansion and Improvements, United States Mint

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987

	Activity 1	Total
	Amount	Amount
Program Changes:		
Expansion and Improvements	694	694
Total Increase 1987 compared with proposed authorized level for 1986	694	694

Expansion and Improvements, United States Mint

SUMMARY JUSTIFICATION OF FY 1987 BUDGET ESTIMATES

The primary responsibility of the United States Mint is to provide the Nation with an adequate supply of coins.

The Mint currently has the ability to produce and deliver all of the anticipated coin demand of the Federal Reserve Banks through FY 1987 and maintain adequate inventories. We estimate coin demand in FY 1987 to be 17.230 billion coins, and have budgeted production of 17.230 billion coins to meet that demand.

In the early 1970's, the Department proposed a new Denver Mint to meet anticipated coinage demand during the 1980's. In 1976, Congress asked the General Accounting Office to study alternatives to the construction of a new Denver Mint, which then was estimated to cost $65 million. In 1978, the Mint initiated a detailed cost-benefit study of the alternatives recommended by GAO to meet production requirements under guidelines issued by OMB. It was concluded that the recommendations of GAO to improve and expand existing facilities would be the most cost effective method of expanding Mint capacity. Detailed cost estimates were prepared for each coin facility. Estimates for facilities modifications and production equipment totaled $18 million; $15.8 million in Denver and $2.2 million in Philadelphia.

Of the estimated $15.8 million needed for improvements at the Denver Mint, $5.7 million is provided by previous appropriations to a no-year appropriation entitled "Construction of Mint Facilities." For presentation in the President's FY 1987 budget, the Expansion and Improvements appropriation and the Construction of Mint Facilities appropriation have been combined. To complete the Expansion and Improvement Plan, $3.969 million was approved in FY 1982 by P.L. 97-92 and P.L. 97-161; $5.200 million was approved in FY 1983 by P.L. 97-276 and P.L. 97-377; and the balance of $3.070 million was approved by P.L. 98-151 in FY 1984. The appropriated total of $12.3 million is required as follows: Denver Mint $10.1 million and Philadelphia Mint $2.2 million.

THURSDAY, FEBRUARY 27, 1986.

BUREAU OF ENGRAVING AND PRINTING

WITNESSES

ROBERT J. LEUVER, DIRECTOR, BUREAU OF ENGRAVING AND PRINTING
PETER H. DALY, DEPUTY DIRECTOR, BUREAU OF ENGRAVING AND PRINTING
L. PAUL BLACKMER, JR., ASSISTANT DIRECTOR (ADMINISTRATION), BUREAU OF ENGRAVING AND PRINTING
JOEL C. TAUB, CHIEF, OFFICE OF FINANCIAL MANAGEMENT, BUREAU OF ENGRAVING AND PRINTING
PAUL BATEMAN, DEPUTY TREASURER OF THE UNITED STATES
JILL E. KENT, DEPUTY ASSISTANT SECRETARY, DEPARTMENTAL FINANCE AND PLANNING

Mr. ROYBAL. The Committee will now hear from the Bureau of Engraving and Printing.

Are you Mr. Leuver?

Mr. LEUVER. Yes, sir.

Mr. ROYBAL. You may proceed in any manner that you may desire.

Mr. LEUVER. Thank you, Mr. Chairman.

As you said, I am Robert J. Leuver, the Director of the Bureau of Engraving and Printing, and once again, it is a pleasure to appear here before the Committee.

I would like to introduce the people at the table with me. At the far right here is Jill Kent, who is the Deputy Assistant Secretary for Departmental Finance and Planning; and next to her is Paul Bateman the Deputy Treasurer; at the far left is Peter Daly who is the Deputy Director of the Bureau; and to my immediate left is Paul Blackmer, who is the Assistant Director for Administration. Seated behind me is Milton J. Seidel, who is the Assistant Director for Research and Engineering, and Thomas Ferguson who is acting in Joseph DeBose's place, as the Assistant Director for Operations.

I have prepared an introductory statement which I would like to submit for the record, if I could.

Mr. ROYBAL. Without objection, that will be the order.

[The prepared statement of Mr. Leuver follows:]

DEPARTMENT OF THE TREASURY

Bureau of Engraving and Printing

Introductory Statement of Robert J. Leuver
Director of the Bureau of Engraving and Printing
Concerning the Fiscal Year 1987 Budget

For Presentation to the Subcommittee on
Appropriations

Mr. Chairman and Members of the Committee:

I am Robert J. Leuver and am pleased to appear before you today as Director to report the progress of the Bureau of Engraving and Printing during fiscal year 1985 and discuss our plans for future years. I am accompanied by Peter H. Daly, Deputy Director; L. Paul Blackmer, Jr., Assistant Director (Administration); Joseph M. DeBose, Jr., Assistant Director (Operations); Milton J. Seidel, Assistant Director (Research and Engineering); and Joel C. Taub, Chief, Office of Financial Management.

The Bureau is the world's largest securities manufacturing establishment. It designs and produces United States currency,

postage stamps, Treasury obligations, and other United States securities. It is also responsible for advising and assisting Federal agencies in the design and production of other Government documents which, because of their innate value or some other reason, require counterfeit deterrence characteristics.

During fiscal year 1985, the Bureau experienced another record year for the production of currency and met high U.S.P.S. delivery requirements for postage stamps. Bureau productivity improved by more than eight percent over fiscal year 1984. We expect these strong productivity improvements to continue.

FINANCING AND CAPITALIZATION

We are not requesting an appropriation for fiscal year 1987. The operations of the Bureau are financed by means of a revolving fund established by Public Law 81-656, approved August 4, 1950. This law authorized the Bureau to be reimbursed by customer agencies for all costs of products manufactured and services performed. Public Law 95-81 amended Public Law 81-656 by authorizing the Bureau to include in charges to customers an amount to be used for the acquisition of capital equipment and working capital.

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OPERATIONAL RESULTS AND FUTURE YEAR PRODUCTION

In fiscal year 1985, we delivered 6.4 billion currency notes and 32.4 billion postage stamps. The record currency delivery represents a 9% increase over deliveries for fiscal year 1984 and was the largest production in the history of the Bureau.

For fiscal years 1986 and 1987, projections for currency note deliveries reported in the Bureau's budget are 6.4 and 6.7 billion notes, respectively. However, the Federal Reserve System has since increased its requirements to 6.6 and 6.9 billion notes in fiscal years 1986 and 1987, respectively. Future deliveries of currency should continue to increase significantly, reaching a level of 8.3 billion notes by 1991.

Postage stamp deliveries reported in the budget are 34.2 and 30.0 billion stamps for fiscal years 1986 and 1987, respectively. The higher than normal deliveries for fiscal year 1986 are projected as a result of the postal rate increase, which became effective in February 1985. Postage stamp deliveries are expected to normalize at approximately 30 billion stamps in fiscal year 1988.

Despite labor and material price increases in 1985, cost efficiencies associated with the implementation of technological improvements enabled the Bureau to limit billing rate increases to the Federal Reserve to less than half the rate of inflation.

In October 1985, the price per thousand notes was increased from $25.65 to $26.00, representing an increase of only one percent. This minimal price increase is consistent with our moderate pricing policy of the past five years and is indicative of the positive impact our modernization efforts have had on the cost of producing our products.

In the first quarter of fiscal year 1986, an overall postage stamp price increase became effective. This increase was necessary to fund capital equipment requirements needed to meet the demand for postage stamps and to maintain the highest level of quality in response to the expanded U.S.P.S. philatelic marketing programs.

ADVANCED COUNTERFEIT DETERRENCE

Since 1978, the Bureau has been an active participant in international and domestic efforts in advanced counterfeit deterrence. A Four Nation Committee (U. S., Great Britian, Canada, and Australia) concluded that currency produced in conventional design will be at risk due to developments in advanced color scanners and color copiers. These advanced technologies are now predicted to become commercially available in 1988, and reach threat proportions in the early 1990's. The Secret Service concurs in this assessment.

An interagency steering committee, composed of the Bureau of Engraving and Printing, the U. S. Secret Service, and the Federal Reserve System, was formed in 1981. This committee is chaired by the Treasurer of the United States, and is chartered to formulate counterfeit deterrence strategy for U. S. currency.

We are actively researching the feasibility of several currency design features which would facilitate the authentication of U. S. currency. The Secretary of the Treasury has been briefed on the progress of our research and development efforts, but a final decision on the design features to be incorporated into the currency will not be made until the research is completed.

PRODUCTIVITY

The Bureau is continually exploring new technologies and work methods that have the potential for productivity improvement in all phases of our operation (ie., production, production support and administrative areas). From fiscal years 1980 through 1984 the Bureau realized productivity gains ranging from 5 percent to 18 percent per annum.

During fiscal year 1985, our productivity continued to improve. Overall production increased while full time equivalents (FTE's) decreased. The Bureau's productivity showed an overall increase of more than eight percent. The dedicated

efforts of Bureau employees aided by an aggressive capital equipment modernization program, and increased emphasis on research and development, have been the primary contributor to productivity increases.

In fiscal years 1986 and 1987, the Bureau anticipates continued increased productivity. Our long-range plans involve the acquisition of highly technical and more productive equipment such as postage stamp coiling equipment, new postage stamp presses, mechanical examination equipment for postage stamps, and a pre-press design center. Finally, the Bureau is exploring the development of currency production technology which would be centered around a web printing press. This technology, incorporated into an integrated currency production system, has the potential for significant productivity improvements and a marked decrease in manufacturing costs for currency.

TECHNOLOGICAL IMPROVEMENTS

The Bureau continues to pursue an extensive technological improvement effort. This effort is geared to improving productivity and reducing the cost of operations. The Bureau employs the most advanced technology available in the production of U. S. securities, and following is a summary of current and future acquisitions:

The construction at the Denver Mint involves an expanded south dock for consolidating all material deliveries and coin shipments, roadway approaches and departures from the south dock, and a two story building addition on the west side which will provide for coinage materials storage and processing on the ground floor and secured storage of finished coins, in the basement. These additions allowed removal of the three (3) temporary buildings which were used for coin storage and materials storage. The construction will include the relocation and installation of production equipment, support facilities for increased coin production, and necessary utilities systems. The contract to perform the work at the Denver Mint was awarded in May 1984. The work effort is expected to be completed by July 1986.

Philadelphia Mint improvements consist primarily of production equipment installed in the present Mint building.

Upon completion of this multi-year program, the Mint will have increased coining capacities from 17.1 billion coins annually to 22.5 billion coins annually-- this includes domestic capacity at the San Francisco Assay Office and the West Point Bullion Depository. At the same time, the Mint will have provided a safer, more efficient working environment for its employees.

In FY 1987, the Mint is requesting $694,000 to complete the Denver Mint Materials Handling System. The requested amount will fund completion of an automated materials handling system for the Denver Mint. This system is essential to the efficient functioning of the expanded Denver Mint.

Expansion and Improvements

For expansion and improvements to existing Mint facilities and for renovation of surplus Federal properties to be acquired by lease or purchase, $694,000 to remain available until expended. (Additional authorizing legislation to be proposed.)

TREASURY DEPARTMENT

EXPANSION AND IMPROVEMENTS, UNITED STATES MINT

STANDARD CLASSIFICATION SCHEDULE

	Appropriation 1985	Authorized Level 1986	Budget Estimate 1987	1987 Increase/ Decrease over 1986
No employees are paid from this account				
Object Classification				
Other services	$ ---	$ ---	$ ---	$ ---
Supplies and materials	---	---	---	---
Equipment	---	---	694	694
Lands and structures	---	---	---	---
Total Obligations	$ ---	$ ---	$ 694	$ 694
Total Appropriation, Authorized level and Budget Estimate	$ ---	$ ---	$ 694	$ 694

Currency Printing Presses - During fiscal year 1984, the Bureau acquired four additional water wipeable, sheet-fed, intaglio printing presses. These additional presses were installed and became fully operational early in 1985, increasing our total complement of these machines to twelve. This equipment helps to provide the total press capacity required to meet program increases, and have a 10 percent productivity increase over older paper wipe presses. They eliminate the environmental solid waste disposal problems associated with paper wipe presses, while creating lesser environmental concerns of a more manageable nature.

Currency Overprinting and Processing Equipment With In-Line Packaging (COPE-PAC) - In fiscal year 1983 and 1984, a contract was awarded for nine COPE-PAC machines. Two existing COPES will be converted to COPE-PAC machines by being retrofitted with packaging lines. This will make a total of eleven COPE-PAC machines available. Four of the nine machines contracted for have been installed and are operational, with the remainder awaiting delivery. This new equipment permits packaging of completed 4,000-note units, referred to as bricks, directly in-line with the currency overprinting and processing equipment. It incorporates the operations of printing serial numbers, Treasury seals, Federal Reserve seals and bank numbers, inspecting, counting, banding, and shrink wrapping, with automatic mechanical transfer of the work between operations. The finished bricks are delivered from the COPE-PAC, ready for shipment to the

Federal Reserve Banks, a significant enhancement to product security. This new process allows the Bureau to fulfill increased production requirements with existing workforce levels, thereby decreasing costs per unit. When all lines are fully operational, this equipment will increase production capacity for currency by over 35 percent.

Off-Line Postage Stamp Perforator/Sheeters - This equipment perforates and cuts a continuous web into sheets. It replaces in-line equipment. This new equipment permits the printing presses to operate at full speed and achieve maximum efficiency. Four off-line perforators are currently operational.

Mechanical Examination of Postage Stamps - The Bureau's successful application of mechanical examining technology to currency has propelled recent efforts to apply the same technology to postage stamps. During fiscal year 1985, specifications for a roll-to-roll stamp examination system were completed. Proposals have been solicited and an award of a contract for equipment should be made during fiscal year 1986. In order to complete the improvement in the sheet stamp operation, specifications for sheet-fed final inspection and packaging machines have been completed and a contract should be awarded by the close of fiscal year 1986. These two acquisitions will substantially reduce dependence on the highly labor intensive methods currently employed.

500/3,000/5,000 Stamp Coilers - The Bureau will acquire 500/3,000/5,000 Stamp Coilers, which will replace equipment that is nearly 25 years old. This equipment, which will operate in a manner similar to the 100 stamp coilers acquired in fiscal year 1982, will improve productivity while maintaining existing capacity. A precise estimate of productivity improvement is not currently available due to the developmental nature of this equipment. A contract is expected to be awarded for this equipment in fiscal year 1987.

Rotogravure Press (E Press) - During fiscal year 1987 a replacement for the Bureau's aging 7-color Rotogravure Press will be sought. A more productive and environmentally acceptable press will be acquired. The Bureau is a leader in the use of water-based gravure inks for high quality products.

Postage Stamp Booklet Packaging Equipment - This equipment was contracted for in fiscal year 1984 and delivered in late 1985. This equipment will automate the unloading and packaging functions, and produce packages meeting the Postal Service's requirements for security and accountability. The unit package will contain twenty-five booklets instead of the present three hundred. This will significantly reduce the manual counting and handling tasks which result from dealing with a large number of loose booklets. The package will be transparent, permitting verification of the contents before opening the security seal.

This equipment is expected to be in production by the summer of 1986.

FUTURE TECHNOLOGICAL IMPROVEMENTS

Prototype Web-Currency Press - As part of our long term efforts to develop and apply web printing technology to the printing of U. S. Currency, a prototype web press will be acquired. The prototype will provide the Bureau the opportunity to guage the feasibility of web technology to print currency. Also the prototype press will be developed to operate as part of a much larger, sophisticated system of integrated or interrelated technologies to print, number and overprint, examine and package currency in a continuous flow from a roll of paper to plastic wrapped containers. Successful development and installation of the press alone could provide significant productivity improvements over our present printing capabilities.

Application of Automatic Control Systems - A study was initiated, starting in fiscal year 1983, to determine which production and support processes would lend themselves to the application of automatic control systems. At present, application in the chrome plating and waste water treatment operations appear promising. The purpose of this effort is the attainment of fully automated control of these processes. Studies that are expected to identify further applications for this concept are continuing.

Pre-Press System (Design Center) - The Bureau has initiated procurement of a computer-based design center that will enable the Bureau to significantly cut the time between conceptual design of postage stamps and the completion of plates and/or cylinders.

Pre-Press System (Laser Cylinder Machine) - Laser technology is being investigated as a possible state-of-the-art approach to improving productivity in engraving operations. If proven feasible, laser technology would be employed in conjunction with high-resolution computer scanning. Combining these technologies would eliminate several manual engraving processes. Conceivably, through computer scanning, an artist's drawing would be converted into an electronic signal which then would control the movement of a laser beam across a steel plate, producing the engraving. An estimate of potential productivity improvement is not available due to the developmental nature of this project.

OPERATIONS IMPROVEMENTS

Environment - Through the Environmental Quality Resource Program, the Bureau continues to monitor its environmental performance and is trying to remain abreast of changes in environmental regulations, at both the local and Federal levels, so that the operational impact of such regulations are anticipated and controlled.

The Bureau has worked closely with the District of Columbia to formulate new atmospheric environmental regulations specifically addressing the Bureau's printing operations. These new regulations provide sufficient flexibility to allow operation of new printing equipment to meet short-term increases in production capacity, while at the same time achieving the goals of the Clean Air Act.

The Bureau has undertaken several initiatives to reduce solvent vapor emission into the atmosphere and to isolate and safely dispose of hazardous wastes. The Bureau has embarked on a sophisticated ink reformulation research program to develop methods to reduce the solvent content of its inks. Other efforts are underway to replace, where feasible, solvent based gravure inks with water based gravure inks. Similarly, the Bureau is moving forward aggressively in its efforts to more effectively manage its industrial solid wastes. During 1985, new hazardous waste storage areas were completed incorporating the latest in advanced design storage and dispensing facilities. Also, the construction of a Waste Fueled Boiler Facility provides on site destruction of securities designated for mutilation. Previously these securities were transported to other locations for destruction or shredded on site, then transported to a landfill. The steam generated from the waste fueled boiler provides a new source of energy for Bureau operations.

Occupational Safety and Health Program - The Bureau administered a series of aggressive Safety, Occupational Health and Fire Prevention/Protection Programs during fiscal year 1985. These programs were designed to meet the needs of the Bureau's workforce, contribute to operational efficiency, provide protection for the facilities and equipment, and ensure that the Bureau maintains compliance with applicable codes, standards, and regulations of the Occupational Safety and Health Administration (OSHA), and the National Fire Protection Association (NFPA). Some of the more notable programs included; hearing conservation, occupational vision, medical surveillance, asbestos control, chemical spill response, accident investigation, response to employee reports of unsafe or unhealthful conditions, and workplace inspection.

The Bureau continued to implement and upgrade its Fire Protection and Life Safety Program during the year. Major fire protection and life safety projects continued during the year included; installation of an automatic sprinkler and fire management system for the Annex Building, enclosing the stairwells in the Main Building, constructing a hazardous waste and hazardous new materials storage facility, overhauling the Bureau's approximately 1400 portable fire extinguishers and inspecting, testing and maintaining the Carbon Dioxide and Halon Fire Suppression Systems throughout the Bureau. During 1986, an automatic sprinkler and fire management system will be designed for the Main Building.

The workers' compensation program has also been continued and improved. During 1985, a computer database was established for all compensation cases. Through this medium, a list of employees repeatedly involved in serious accidents is now generated on a quarterly basis so that problem situations can be addressed. In 1986 an increased emphasis is being placed on worker's compensation through efforts to reduce costs and case rates. Managers with increased accident rates will be provided special assistance to attempt to reduce accident rates. Also, all Bureau supervisors will be provided a special guide for promptly and properly dealing with injury cases. In addition, an across the board effort will be made to improve the Bureau's efficiency in detecting and successfully controverting invalid claims.

Quality Assurance - During fiscal year 1985, the Bureau's Quality Assurance Program continued to emphasize a "total quality" approach to integrate quality development, quality maintenance, and quality improvement. The focus was on improving the quality of Bureau products through enhanced audit and inspection activities, coordinated with customer involvement programs.

In fiscal years 1986 and 1987, the Quality Assurance Program will intensify its efforts to ensure strict vendor compliance to material and equipment specifications. This will be achieved through the implementation of standard specifications, enhanced audit program activities at contractor sites, and by establishing

a closer working relationship between contractors and quality assurance personnel.

Renewed focus will be directed at educational activities to stress the importance of quality products to all Bureau personnel. Emphasis will be placed on integrating quality improvement in every aspect of the manufacturing process by extensive coordination and cooperation between production and quality assurance personnel.

MANAGEMENT IMPROVEMENTS

Automated Financial Management Information System (FMIS) - The Bureau has undertaken a multi-year project to develop an automated Financial Management Information System (FMIS). This project includes two major phases: the first provided the Bureau with a requirements analysis and conceptual system design, and the second, now underway, includes development of the general and detail system designs and programming, selection of hardware and software, and implementation and testing of the new system. To date, the Bureau has acquired applications and database software and has implemented the general ledger. Current efforts include implementing the accounts payable, bill of material, inventory subsystems, and expanding the use of database software. A firm tasked with designing and implementing a data collection network and related hardware is currently under contract, and the network is in the design phase. The new FMIS system became operational

on a phased-in basis, beginning in fiscal year 1984, and the entire system is expected to be fully operational by the end of fiscal year 1987.

Product Accountability Management Information System (PAMIS) The Bureau has a comprehensive and highly detailed product accountability system to safeguard the special raw materials and various production processes involved in creating the valuable securities we produce. PAMIS is a project to totally automate this system and to reduce its cost while improving its effectiveness as an internal security measure. We expect it to become operational by fiscal year 1987. This new system will virtually eliminate manual recordkeeping, and greatly increase the speed with which accountability information can be libraried, extracted, and used by managers to assure the highest level of internal control over securities produced at the Bureau. The PAMIS general design has now been completed and accepted by the Bureau.

To expedite the benefits of an automated system, a microcomputer-based interim product accountability system has been implemented in the currency production areas. Subsequent interim automation efforts will include an accountability of a variety of items, such as postage stamps, miscellaneous products and plates, rolls and dies.

Manufacturing Management System - Recently, the Bureau initiated a project to define an approach for automating the

manufacturing planning and control functions. This work has been completed, and the Bureau is now in the process of implementing certain portions of a Manufacturing Management System (MMS). In particular, the Bureau will implement the features, functions and capabilities which are encompassed in the "control modules" (Product/Process Engineering Records, Inventory Control, Production Control and Order Release, Shop Floor Control, Finished Goods Inventory Management, and Customer Order Servicing and Shipping).

The work performed by the MMS Project Team began with an analysis of existing manufacturing-related systems, procedures, environment and organization. This analysis indicated that, on a preliminary basis, several opportunities exist for improvement through the development and utilization of Manufacturing Management system concepts. These opportunities exist in all production areas (currency, postage stamps and engraving), but are especially prevalent in the postage stamp area. Since the analysis also indicated that significant overlap existed in terms of the manufacturing-related requirements identified for the financial and security systems, a concurrent, integrated effort is underway in all three areas.

Information Resource Management/Automatic Data Processing - During fiscal year 1985, the Bureau continued to develop a highly sophisticated data processing capability to support its information system requirements. Significant progress was achieved in

the areas of cross-organizational participation, technical support services, systems development, long-range planning, data base management, and automation of administrative activities. In future years, ongoing projects are expected to culminate in a highly integrated and cost effective information network which will serve the needs of all Bureau users in a timely and reliable manner.

The Information Resource Management (IRM) Committee has been broadened in concept and participation. This committee is now chaired by the Deputy Director and the working group of the Committee is composed of senior managers who represent all major Bureau components. The Committee assists the Director in making decisions concerning policy, procedures, and use of information management resources. The Committee also evaluates all proposals for system resources, services, hardware and software acquisitions, time sharing, distributive data processing, and all electronic processing equipment.

A major initiative to be undertaken in fiscal years 1986 and 1987 is a project to develop a Bureau-wide capability for office automation. Various state-of-the-art techniques such as display graphics, teleconferencing, and electronic mail are being pursued as part of this project. Bureau requirements have been defined and procurement action has been completed for obtaining standardized word processing equipment for creation of a highly cost-effective, shared resource network. Expected benefits

include: a reduction in paperwork; enhanced information dissemination, storage, and retrieval; and increased productivity in administrative support areas throughout the Bureau. A pilot project is underway to demonstrate and measure the productivity improvement to be realized.

Equal Employment Opportunity (EEO) - The Bureau has continued to pursue a vigorous EEO program. The EEO staff is responsible for administering various programs, which include the Federal Women's Program, Hispanic Employment Program, Federal Employees Opportunity Recruitment Program, and the Handicapped Program. In the organizational structure of the Bureau, the EEO staff is required to report goals, achievements and trends affecting the objectives of these programs to the Office of the Director.

The Bureau continued to move forward in its efforts to enhance equal employment and promotion opportunities throughout all program areas. This undertaking was assisted through continued top level support for apprenticeship programs and an Upward Mobility Program. Additionally, the Bureau's concentrated efforts to recruit, hire and promote minorities and women at the GS-11 level and above were highly successful. Specific examples of our equal opportunity efforts included;

- A BEP female employee is participating in the newly created "Women's Executive Program", designed by

O.P.M., to assist women in receiving high visibility in their respective agencies and prepare them for future management positions in their individual bureaus.

- The Bookbinders and Plate Printers Apprenticeship Programs have continued with more than 50% Minority Participation.

- For the first time in the history of the Bureau a female was hired as a Photoengraver.

- A female was promoted to a GS-14 Attorney-Advisor position in the the Legal Counsel office.

- A black male was promoted to a GS-14 Superintendent position in the Surface Printing Division.

Grace Commission Report - The President's Private Sector Survey on Cost Control (Grace Commission) recommended three initiatives for the Bureau. These include offset printing of one dollar note backs, use of a universal seal on currency notes, and implementation of a satellite facility. Our efforts on offset back legislation are discussed in the Legislation section of this statement.

We have investigated the feasibility of using a universal seal on currency. Research has indicated that no legislation is

necessary; implementation is contingent upon approval of the Secretary of the Treasury. The Federal Reserve Board has not yet made a formal recommendation to the Secretary. A final decision will depend upon determinations made relating to proposed counterfeit deterrence design features in currency.

FACILITIES REQUIREMENTS

In 1984, the Bureau along with the Department of the Treasury, completed an extensive evaluation of the Bureau's facility requirements for the next fifteen years. As a result of this study, a proposal to construct a western U.S. satellite facility has been actively pursued. A western facility would greatly enhance the Bureau's emergency preparedness posture, provide significant productivity and cost benefits, and substantially reduce the transportation costs of western Federal Reserve Banks. As currently envisioned, the facility would produce about 25% of the total annual currency supply. A decision on the satellite proposal will be made in the context of overall Departmental space and contingency planning.

Also, as part of this study, it was determined that a new main facility located in the Washington metropolitan area, would be in the best economic interests of the government. Our present facility, consisting of two multi-floor buildings constructed in the early 1900's, is not well suited to present day production volumes, automated equipment configurations and in-line work

processes, typical of a modern day manufacturing facility. A new main facility consisting of one floor under a single roof, could ultimately lead to substantial economic benefits due to reductions in materials handling costs and increases in productivity. A new main facility along with a western satellite facility would provide sufficient capacity to produce increasing production volumes well into the next century. At present this proposal is undergoing preliminary review.

Year End Shutdown (YES) - During the Christmas/New Year holiday period, the Bureau continued its practice of shuting down operations. This practice, which is commonplace in private industry, has been utilized since 1981 and has saved approximately $400,000 annually. These savings result primarily from cost avoidance associated with low productivity and high absenteeism during this holiday period.

LEGISLATION

Current law requires that U. S. currency be printed by the intaglio method. A legislative proposal, which would authorize the printing of the backs of one dollar bills by a method other than the intaglio process, was first introduced in the 97th Congress. It was reintroduced in the 98th Congress, in both the House and Senate (H.R. 4238 and S.1120), and referred to the House Committee on Banking, Finance, and Urban Affairs, Subcommittee on Consumer Affairs and to the Senate Committee on

Banking, Housing and Urban Affairs. The proposal has been reintroduced in the 99th Congress and we hope for passage this term. Bureau studies, which have been reviewed by the General Accounting Office (GAO), have estimated significant cost savings which would result from this legislation. Savings ranging from $2-3 million yearly would be realized as a result of reduced labor costs. Additionally, over $10 million worth of capital equipment expenditures could be avoided.

In conjunction with the Bureau's continuing efforts to develop counterfeit deterrence design features, a legislative proposal has been introduced in the 99th Congress which would amend 18 U.S.C. 474 to provide for the exclusive use of these design features in the manufacture of U. S. currency and obligations. In effect, the proposal would provide protection of the distinctive design features, in a manner similar to the protection now afforded distinctive paper. The proposal would also clarify the authority of the Secretary of the Treasury to detect and prevent counterfeiting by electronic means.

Also, introduced to the 99th Congress, is a proposal to provide authority to the Secretary of the Treasury to enter into reciprocal printing agreements with certain foreign governments. Specifically, it would allow for the sharing of research and manufacturing capabilities for currency and/or other securities. This proposal would provide the United States and foreign

countries with alternate security printing sources in the event of an emergency, or where otherwise warranted.

RELATIONS WITH THE PUBLIC

The Bureau attracts a great deal of public attention due to the unique nature of its manufactured products. To meet the information needs of currency and postage stamp hobbyists, as well as those of the general public, the Bureau maintains an active public affairs program.

As a major tourist attraction, the Bureau draws more than half a million visitors each year. Visitors observe the actual production of currency as they proceed along a self-guided tour. During the peak tourist season and for special groups, tour guides provide descriptions and explanations of the currency manufacturing process. The cost of maintaining the tour facility is financed by the sale of souvenir items in the Visitor Center and on a mail order basis. Presidential portraits and vignettes of historic buildings are some of the souvenirs sold. However, the most popular items sold are uncut sheets of one and two-dollar bills. During fiscal year 1985, the Bureau sold more than 77,932 uncut currency sheets, with a gross revenue of $1,377,490.

The Bureau also participates in a program of exhibits sponsored by various numismatic and philatelic societies. For most exhibits, the Bureau produces and sells a souvenir card depicting a theme appropriate to the exhibit. The Bureau also displays rare government securities and makes available a team of technical experts and speakers, upon request to answer questions on currency and stamp production. At selected shows, a 19th century hand press is also demonstrated.

SUMMARY

In summary, the Bureau had a very productive year. We expect to be equally productive in fiscal years 1986 and 1987 as we strive to improve operations.

This concludes my opening statement, Mr. Chairman, and I will be happy to respond to questions you or other members of the Committee may wish to ask.

Mr. ROYBAL. You may proceed by summarizing that statement.

Mr. LEUVER. All right.

If I might, in sense of brevity, I would like to say that the statement which was submitted to you concerns the results of the Bureau of Engraving and Printing, and highlights legislative initiatives, productivity, technological improvements and plans for the future.

As you know, the Bureau is the world's largest security manufacturing establishment. It is our responsibility to design and produce U.S. currency, postage stamps, Treasury obligations, and other U.S. securities.

Additionally, the Bureau advises and assists Federal agencies in the designing and producing of other Government documents, which because of their innate value, or some other reason, require counterfeit deterrents.

The Bureau is not requesting appropriations for fiscal year 1987, and as you know, the operations of the Bureau are financed by means of a revolving fund.

PRODUCTIVITY

Quite frankly, the Bureau has enjoyed a very good year. We continue to increase our productivity. Over the past twelve years our productivity improvement has been something between 125 and 130 percent.

OPERATIONAL RESULTS

This year we expect productivity improvement to be in the area of 10 to 12 percent. Last year we produced the greatest number of currency notes that we have ever produced, it was 6.4 billion currency notes. This year, 1986, we are going to be producing 6.6 billion currency notes. Let me put that in perspective.

The entire world, including Russia, India and China, which are major producers of currency, only produce approximately 40 billion currency notes, so one-seventh of the total currency notes produced and used in the world are produced for the United States.

Last year we produced something like 34 billion postage stamps, which again is another record for us. The large increase was due basically to the rate change. Our ordinary production of postage stamps is somewhere between 26 billion and 30 billion.

So we continue to look for initiatives in the Bureau to increase our productivity, to be competitive in price, and to produce quality product in a secure environment.

With that, I would be happy to answer any questions you or the Committee may have, sir.

COUNTERFEIT CURRENCY VOLUME

Mr. ROBAL. Well, thank you, Mr. Leuver.

You probably remember that we spent some time discussing counterfeiting. It happens to be of great interest, and I would like to know now whether or not the counterfeiting of U. S. currency is still a major problem.

Tell the Committee what studies are being conducted to minimize counterfeiting problems, and anything that is being done to make counterfeiting more difficult to do.

Mr. LEUVER. All right.

Let me say that the threat continues. I believe I refer back to Secret Service statistics that in 1984 the amount of counterfeiting notes that were passed and seized, amounted to approximately $7 million. The amount in 1985 was $5.6 million.

IMPACT OF COLOR COPIERS ON COUNTERFEITING

However, technology continues to increase and to get better. There are new photocopy machines coming on the market that will have greater resolution. In other words, they will be able to pick up the fine details of currency. They are also going to have a color capability that would put not only our own currency in jeopardy, but the currency of any country.

And we expect to see one machine, one by Ricoh, a Japanese manufacturer, to be marketed in this country in the early part of this year. We expect other machines, mostly from Japanese companies, to be coming on to the market in the latter part of this year and next year.

Xerox, an American corporation, is developing exceptionally good photocopy machines for the military, which is going to have the same capabilities of resolution and color definition as the Japanese companies.

ADVANCED COUNTERFEIT DETERRENCE RESEARCH

How do we respond to it? It is one of your questions, I think it is a very legitimate question. The U. S. Government, the Bureau of Engraving and Printing and the Secret Service joined with the Federal Reserve, back in 1978. We were part of a four nation group, which involved the four English-speaking countries of Great Britain, Canada, Australia and the United States; from '78 through '82 we conducted research, and the research at that time indicated that we should be looking for an optical variable device, I think the last time I explained to the Committee that an optical vairable device is when you look at the device on one plane, it has one type of representation, whether it be color or a figure, and when you rotate it to approximately a 45 degree angle, the color would change dramatically, or the image would change.

The Secretary of Treasury, in 1981, established an advanced counterfeit deterrence committee, chaired by the Treasurer of the United States, at that time, Bay Buchanan. Today it is headed by Treasurer Katherine Ortega.

Again, that committee is made up of the Federal Reserve, the U.S. Secret Service, and the Bureau of Engraving and Printing. We have conducted extensive research, and this in two areas. One is covert, and we are looking for some kind of a covert device that we can put into currency, be it a taggant, a taggant would be something that would be added to ink, and be invisible, or an encryption system, and that would be for authentication purposes, it would be machine readable at Federal Reserve Banks, conceivably commer-

cial banks, and again at point of sales, such as in department stores, or in restaurants.

We are also looking at the visible spectrum, which is for the man on the street, and we have looked at a broad range of deterrents over these same four years. If I could, generically, we have looked at the substrate, which is our paper, design, inks and printing.

As far as a substrate is concerned, we have looked at watermarks, we have looked at security threads, we have looked at fibers, and we have looked at metamorphics.

If I could explain what a metamorphic is, that would be basically something in the substrate, when photographed it might produce an image, like the word "void" or "counterfeit." It would be something that would be excited by the light shining on the note.

As far as design is concerned, we have looked at color tints, we have looked at intaglio microprinting. With inks, we have looked at metamerics, which is a rather interesting thing, and distinguished from metamorphics. Metameric ink, the Japanese are using this incidentally, in their new note, which they came out with about six months ago.

The human eye is not as good an optical device as a photocopy machine. So the human eye might perceive color, green color, as being green, but when put on a photocopy machine, for reproduction, a segment of that might be actually gray, or some other corresponding color. And that would show up in the photocopy machine, and then would become visible to the human eye, only because, as I say, the machine has a greater optical capability than the human eye.

We have looked at these, and to be quite frank, after I have explained all of this, we found we have not been able to find colors that are quite distinguishable that would really deter, or that the man on the street would that quickly recognize.

As I say, the Japanese have used it in their currency. We are continuing research in this particular area, trying to increase that color definition, so that would come out rather strongly, as if somebody were playing with the currency.

If I might, our currency is printed in black. If we could get a metameric ink that was black, that conceivably if somebody photocopied it, half the note would be black, and half the note would come out gray, that is what we are looking for, and we are continuing research on that.

We also looked at reflective inks. As far as printing is concerned, we have looked at the optical variable devices, which I mentioned before, and we have looked at daub patterns.

COST OF COUNTERFEIT DETERRENTS

Cost, I think it is a legitimate question. I do not know if you really asked it, but as far as costs are concerned, the Bureau has invested about seven and a half million dollars, from 1982 to 1986 approximately a million and a half dollars a year, looking at some of these strategies.

Now, the Federal Reserve, on their own, has done some research. However, that is a different matter.

NATIONAL ACADEMY OF SCIENCES STUDY

One important thing that we did under Treasurer Katherine Ortega's auspices, was to contact the National Academy of Sciences. The National Academy prepared a report on counterfeiting. That report became very important to the Secretary. We had the draft of the report approximately September of last year.

The National Academy of Sciences put together, a little over a year ago, a group of people with varied scientific expertise. They had a Nobel laureate in physics, they had people with expertise in optics, expertise in photocopy machines, and expertise in counterfeiting. The study was headed by the Provost of the University of Rochester.

What they did was validate the threat that we have, and they recommended that the Treasury Department consider immediately, using, traditional deterrents. Recommended options in that study included, the thread and the watermark dot pattern. We have performed research in these areas this for the Secretary since receiving that report.

However, they did say that we probably, at some point in time, although not immediately, should redesign U.S. currency, to effectively address counterfeiting.

Basically, that is about where we are at right now, and it is in the hands of the Secretary.

COUNTERFEIT IMPLICATIONS OF OFFSET PRINTING

Mr. ROYBAL. Something that was demonstrated to us, that is of great interest, is the danger of counterfeiting by engraving only one side of the dollar bill. Is that still a potential danger?

Mr. LEUVER. You mean were we seeking legislation to print the back of the one dollar bill by the offset method?

Mr. ROYBAL. Yes.

Mr. LEUVER. We admit, to a certain extent, that printing the reverse side of the one dollar bill by offsetting does make it easier to counterfeit.

However, I think the Secret Service has identified less than 750 notes passed each year, in the last two years, that were counterfeited one dollar bills.

So if somebody is going to counterfeit a bill, they will be going for the higher denominations, like the hundreds, the fifties and twenties. So the request for legislation, to print by the offset method, I think is still valid, because the cost savings run somewhere between $2 and $3 million a year.

Mr. ROYBAL. In a recent briefing that this Committee had we saw the counterfeiting of Government checks.

Mr. LEUVER. Right.

Mr. ROYBAL. It was an amazing demonstration, in which a check for $300 ended up being $330,000.

Mr. LEUVER. Right.

Mr. ROYBAL. They kited them.

Mr. LEUVER. Yes.

Mr. ROYBAL. Is that——

Mr. LEUVER. I do not think we are on the same level here with the one dollar bill, because they will not be able to kite the bill, in

that sense of the term, because there is just too much identification to being a one dollar bill.

Mr. ROYBAL. I see.

COUNTERFEITING IN FOREIGN COUNTRIES

Mr. LEUVER. We are only looking for legislation for the one dollar bill. However, there is counterfeiting today, and I believe the Secret Service told me it is located more in Spain and the Philippines. I am not too sure what is happening in the Philippines today.

[Laughter.]

Mr. LEUVER. These two countries have been bleaching with a Clorox type solution for about 20 minutes on a one dollar bill, and then they print on offest, $100 bills. So for the investment of one dollar, plus the change that it costs you to buy a bottle of Clorox, they increase their investment to $100.

The paper that we print on, is cotton and flax, and most cashiers in the United States and foreign countries, tell the genuineness of the currency by feel. and as a cashier in a bank is going through all these bills, and if a bill does not feel right, they will look down, and quickly pick out the counterfeit.

Mr. ROBAL. Mr. Skeen?

Mr. SKEEN. Yes.

The bleaching process does change the feel on the bill?

Mr. LEUVER. No, it does not change the feel. It leaves the substrate there.

Mr. SKEEN. Oh, I see.

Mr. LEUVER. So, in other words, if it does have the proper feel, it has more tendency to pass as genuine, as a consequence.

Mr. SKEEN. So how do you handle these operations?

Mr. LEUVER. We are not getting them back here in the United States.

Mr. SKEEN. They are not?

Mr. LEUVER. They are being passed overseas. But we are looking at some means to overcome that. The Secretary has that under consideration.

AUTHORITY TO REDESIGN CURRENCY

Mr. SKEEN. Thank you, Mr. Chairman, I appreciate that.

I would like to ask you, I notice that you are asking for legislation, how far do you have to go in asking for authority, or how much latitude do you have, without seeking legislation, for changes in printing currency?

Mr. LEUVER. No, the legislation reads that currency will be printed by the intaglio method, so we would have to seek legislation.

Mr. SKEEN. You have to seek legislation?

Mr. LEUVER. Yes, sir.

Mr. SKEEN. Thank you, Mr. Chairman, that is all I have.

Mr. ROYBAL. Do you have any more questions?

Mr. SKEEN. No, I have no more.

STATUS OF SATELLITE FACILITY STUDY

Mr. ROYBAL. I am, of course, interested in knowing about the current status of your review of the location of the satellite printing facility. Will you tell us who in the Executive Branch will make the final decision as to its location, and then——

Mr. SKEEN. How close to Los Angeles?

[Laughter.]

Mr. ROYBAL. I also want to know what the process is that must be followed to actually construct it, because I have Los Angeles in mind.

Mr. LEUVER. All right. Let me put it this way, and try and answer your first question first.

The status, basically, it is still a Departmental study. We have not gone forward to OMB with it, or to the Congress. However, the Secretary is a very astute person, and Secretary Baker, as you know, is very forthright in dealing with Congress.

Consequently, I am sure when the time comes for making a decision, if there is a decision to be made the Secretary will contact the appropriate committees.

At this time, for myself, I really do not know what they are. But obviously, the Appropriations Committees are going to be paramount in his consideration.

Paul, would you basically agree with that?

Mr. BATEMAN. Yes.

CRITERIA FOR SITE SELECTION

Mr. LEUVER. Well, as far as where we are at, we are actually in Phase 2. Phase 1 was to originally identify locations, and some 80 cities submitted bids, and we judge those on specific criteria' which basically had to do with the availability of good transportation systems to the three Federal Reserve Banks in the West, which would be Kansas City, Dallas and San Francisco, and 10 District Banks.

Now, oddly, two District Banks use almost as much currency as the main banks do, and those are Denver and Los Angeles, major users of currency.

This other factor basically included the frequency of nonstop air transportation. The second criteria was proximity to airports, the third was the availability of secure ground transportation between the facility and the airport.

Now, what we are looking at is a Western facility to produce approximately 25 percent of currency.

LIMITATIONS OF CURRENT FACILITY

However, what has caused the problem, and I probably should relate to that, the Bureau is reaching its capacity in the current plant. We have to remodel constantly. We have to spend approximately 40 percent of our capital budget for remodeling every time we bring in new equipment. The building was originally constructed in 1913, there is 23 acres of floor space. But it was built for a labor-intensive environment.

And the Bureau, as you know, at one time had 9,000 employees. In 1951 it employed 6,500 people. Today I have only 2,300. I am

doing probably four times the amount of work that we did in that period of time. Again, that is the productivity increases that we have gone through.

But the equipment that we bring in, instead of the small presses that probably weighed less than a ton, we are bringing in presses today that weigh 20 to 30 tons, so that is the inadequacy of the current building.

The District of Columbia also has targeted the Bureau, quite frankly, to resolve its own environmental problems, as far as emissions are concerned. There are certain emissions, with the drying part of the equipment. This is making it difficult for the Bureau to continue to grow in the District.

Also, I should be quite frank in saying that the Department officials saw the Bureau's facility here in Washington as a solution to multiple sites, and expensive rental commitments. The Treasury Department is in 54 or 58 sites alone in the District of Columbia, and with 23 acres of floor space they can move almost all of those facilities into the Bureau of Engraving and Printing, and save on those rental costs, because the Department does own the Bureau facility.

So the Department basically, approximately a year and a half ago, initiated a study, which was to review Bureau requirements, and the Treasury consolidation of the the Bureau of Engraving and Printing. So that is why the topic of the Western facility made a lot of sense.

CURRENCY DEMAND IN WESTERN U.S.

Also, the currency growth in the Western part of the country is consistently growing in California, and in the Texas area, which is now beginning to shift greatly to the South. Los Angeles, and as you know, San Diego, both have a very heavy involvement, not only in the Far East, but also in South America.

I probably should mention, when I started talking, I was telling you how much currency we did produce last year, and we are an international currency, that is why we produce so much, and a lot of our currency is shipped out of the country, almost as it is printed.

Does that answer your question?

SELECTION PROCESS CRITERIA

Mr. ROYBAL. It surely does, Mr. Leuver, and I am delighted to hear your answer to my question, particularly in view of the fact that Los Angeles is being considered with other cities.

We know that San Diego is also being considered, and Oakland and——

Mr. LEUVER. They are two of 11.

Mr. ROYBAL. They are two of the 11 that will be considered. However, I think that the decision to go West is a correct one, and I am delighted to know that it will coincide with the Bureau of Engraving and Printing's 125th anniversary.

My understanding of the selection process is that one of its most important criteria, is the availability of nonstop commercial air service to the Federal Reserve District Bank cities of San Francis-

co, Dallas and Kansas City, and to 10 other branch banks in these cities.

I agree that the matter of security is paramount, but one must carefully look at all of this. I say this only to make the point that there is no place that I know of in the United States that meets the criteria that you have outlined more than Los Angeles.

Now, I do not have anything against any of the other cities, but I do say that there is always number one.

Mr. LEUVER. Right.

Mr. ROYBAL Now, having made that particular plug at this time, I would like to be of assistance wherever I can, and I would like to work with you. I hope that when the final decision is made, we will both celebrate the construction of a beautiful, well designed building and facility that will meet your requirements, for years to come.

Mr. LEUVER. Thank you, sir.

Mr. ROYBAL. May I thank you, Mr. Leuver, and your colleagues, for your presentation. The Committee will take your request under consideration.

Mr. LEUVER. Thank you very much.

[The statement of Ms. Ortega and the justifications follows:]

DEPARTMENT OF THE TREASURY

Bureau of Engraving and Printing

Introductory Statement of Katherine D. Ortega
Treasurer of the United States
Concerning the Fiscal Year 1987 Budget
For Presentation to the Subcommittee on Appropriations

Mr. Chairman and Members of the Committee

I am pleased to appear before you today to report the progress of the Bureau of Engraving and Printing. I am accompanied by Mr. Robert J. Leuver, the Director of the Bureau of Engraving and Printing, who has a statement for the record. My statement highlights significant issues that will impact the Bureau.

The Bureau of Engraving and Printing is the world's largest security manufacturing establishment. It produces United States currency, postage stamps and various other security documents. The Bureau is not requesting an appropriation for fiscal year 1987, since its operations are financed by a revolving fund.

In fiscal year 1985, the Bureau delivered 6.4 billion currency notes and 32.4 billion postage stamps. The deliveries

58-805 O—86——11

of currency notes represented the highest annual volume in Bureau history. The high volume currency requirement will continue in the upcoming years due to normal currency life cycles, accelerated somewhat by the the Federal Reserve's effort to upgrade the quality of money in circulation. Currency in circulation is not affected by monetary policy, but rather is a reflection of the public's preference for cash as the primary transaction medium, for personal consumption expenditures, as opposed to other, more expensive purchasing mediums.

The Bureau is involved in an extensive technological advancement and automation program. This program is systematically converting the Bureau from a labor-intensive to a capital-intensive facility. This undertaking affects all facets of the organization. Automation projects completed thus far, have resulted in impressive gains in productivity and production capacity in currency and postage stamp printing and processing operations. Modernization efforts, currently underway in administrative and production support areas, promise equally impressive results. For the long term, Bureau research activities will play a crucial role in the development of new technologies, uniquely suited to maintain the Bureau's position as the world leader in securities manufacture.

Another aspect of the Bureau's technological advancement efforts is career development. Various initiatives have been undertaken to minimize the impact of changing technology on both

individual employees and Bureau operations. Some of the more prominent career development efforts include apprenticeship programs and an Upward Mobility program. These programs provide Bureau employees with new avenues of opportunity to pursue challenging and exiting careers at the Bureau.

The Bureau, along with the Department of the Treasury, has completed a comprehensive review of Bureau long term facilities requirements. This review included the assessment of a proposal to implement a western U.S. satellite facility. The assessment fully supported the contention that a western satellite facility would provide significant economic and other benefits to the government. As a result, we are working towards full implementation of this proposal. We have completed site assessments and presented our findings to the Secretary of the Treasury for his review and decision. The satellite proposal was recommended by the President's Private Sector Survey on Cost Control. Combining new technology with better designed facilities will produce maximum benefits to Bureau efficiency.

CONCLUSION

Mr. Chairman, this concludes my opening remarks. I would now like to present Mr. Leuver, who will discuss the Bureau's accomplishments and plans for the future in more detail.

DEPARTMENT OF THE TREASURY

Bureau of Engraving and Printing Fund, Bureau of Engraving and Printing

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1986
(Dollars in thousands)

	Permanent Positions	Average Positions	Amount
FY 1986	2,301	2,263	—
Authorized Level for FY 1986	2,301	2,263	—
Estimates, FY 1987	2,240	2,203	—

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1986

	Appropriation FY 1985		Authorized Level FY 1986		Budget Estimate FY 1987		Increase or Decrease (-) For FY 1987					
							Total Changes		Program Changes		Other Changes	
	Av. Pos.	Amount	Av. Pos.	Amount	Av. Pos.	Amount	Av. Pos.	Amount	Av. Pos.	Amount	Av. Pos.	Amount
1. Engraving and Printing..... 1/	2,316	—	2,263	—	2,203	—	-60	—	-40	—	-20	—
2. Space utilized by other agencies	—	—	—	—	—	—	—	—	—	—	—	—
3. Other direct charges for miscellaneous services.....	—	—	—	—	—	—	—	—	—	—	—	—
Total Appropriation, Authorized Level, and budget estimate.....	2,316	—	2,263	—	2,203	—	-60	—	-40	—	-20	—
Permanent Positions.....	(2,350)		(2,301)		(2,240)							

1/ Staffing levels (average positions) shown above are for information purposes only. The Bureau is not requesting appropriated funds.

Impact of
FY 1986 Gramm-Rudman-Hollings Budget Reduction

- Description of impact on bureau programs;

  The FY 1986 Gramm-Rudman cut of $1,570,000 in our administrative budget will not seriously affect the Bureau. The cut will be taken by deferring the acquisition of noncritical supplies and materials.

- Effect on workload;

  The cut will not seriously impact our workload.

- Effect on services;

  The budget cut will not seriously impact our services.

- Effect on ability to fulfill bureau mission;

  The FY 1986 Gramm-Rudman budget cut will not seriously impair the Bureau's ability to fulfill its mission to meet the currency and postage stamp requirements of the Federal Reserve and the U. S. Postal Service.

SUMMARY JUSTIFICATION OF FY 1987 BUDGET ESTIMATES

General Statement

The Bureau is responsible for manufacturing currency, postage stamps and various public debt instruments as well as most of the other evidences of a financial character issued by the Government.

The operations of the Bureau are financed by means of an industrial revolving fund established by Public Law 81-656, approved August 4, 1950. This law requires the Bureau to be reimbursed by customer agencies for all costs of manufacturing products and services performed. Public Law 95-81, passed July 31, 1977, authorizes the Bureau to include in its price for products manufactured and delivered an amount for the procurement of major capital equipment and working capital needs.

The estimated total cost of sales and services is $193 million in FY 1986, $203 million in FY 1987 as compared with $187 million in FY 1985.

A summary of the changes in selected workload data by activity follows:

1. Engraving and Printing

a. Currency. For FY 1986 and 1987, projections for currency deliveries, as reported in the Bureau's budget, are 6.4 and 6.7 billion notes, respectively. However, the Federal Reserve System has since increased its requirements to 6.6 and 6.9 billion notes in FY 1986 and FY 1987, respectively. The Bureau delivered 6.4 billion notes in FY 1985.

b. Postage Stamps. The projected requirements for FY 1986 and FY 1987, as reported in the Bureau's budget, are 34.2 and 30.0 billion stamps, respectively. In FY 1985 the Bureau delivered 32.4 billion stamps.

c. Securities, Commissions, Certificates, Etc. This program is comprised primarily of Presidential and Department of Defense commissions and certificates, White House invitations, and identification cards for various Government agencies.

2. Space Utilized By Other Agencies, Etc. Customer agencies served are charged for services rendered.

Bureau of Engraving and Printing Fund

SUMMARY OF EMPLOYMENT
(Number of Average Positions)

	Actual 1985	Estimated 1986	Estimated 1987	Increase/Decrease (-) for 1987 Total	Increase/Decrease (-) for 1987 Program	Increase/Decrease (-) for 1987 Other
Manufacturing	1,386	1,387	1,367	-20	-20	----
Manufacturing Support	631	629	617	-12	-12	----
Administrative	134	131	113	-18	----	-18
Subtotal	2,151	2,147	2,097	-50	-32	-18
Temporary Average Positions	165	116	106	-10	-8	-2
Total Average Positions	2,316	2,263	2,203	-60	-40	-20

Bureau of Engraving and Printing

SELECTED WORKLOAD DATA
(In Thousands)

Activity and Principal Workload Factors	1985 Actual	1986 Program in 1986 Budget	1986 Program in 1987 Budget	1987 Estimate	Percent of Increase/Decrease Over 1986
1. Engraving and Printing — Units Delivered:					
a. Currency	6,425,600	6,600,000	6,352,000	6,731,000	5.6
b. Stamps - United States Postage	32,386,270	29,089,000	34,200,000	30,089,000	-12.0
Internal Revenue & Other	712,305	2,846,506	66,000	75,200	13.9
c. Securities, commissions, certificates, etc.	6,359	326	7,323	4,908	-33.0
2. Space utilized by other agencies, and other miscellaneous services (Cost)	$3,696	$5,259	$3,738	$3,924	5.0

BUREAU OF ENGRAVING AND PRINTING

GENERAL STATEMENT

The Bureau of Engraving and Printing, the world's largest securities manufacturing establishment, operates on the basis of authority conferred upon the Secretary of the Treasury by 31 U.S.C. 321 (a)(4) to engrave and print currency and security documents, and additional authority is derived from past appropriations made to the Bureau for work to be undertaken. The operations of the Bureau are currently financed by means of a revolving fund established in accordance with the provisions of Public Law 81-656, August 4, 1950 (31 U.S.C. 5142). This fund is reimbursed by other Government agencies for the direct and indirect cost of the Bureau, including its administrative expenses, incidental to performing the work or services requisitioned.

Public Law 95-81, July 31, 1977 (31 U.S.C. 5142 (c)(3)) increased the Bureau's fund, and additionally authorized the establishment of reimbursement prices from customer agencies at a level which will provide funding for the acquisition of capital equipment and future working capital. This should preclude future requests for appropriations.

The Bureau designs, manufactures, and supplies most of the major evidences of a financial character issued by the United States. It is the sole source of United States currency, various public debt instruments, as well as most other evidences of a financial character issued by the United States, such as postage stamps. The Bureau executes certain printings for various territories administered by the United States, particularly postage and revenue stamps. It conducts extensive research and development programs for improving the quality of products, reducing manufacturing costs, and for strengthening deterrents to the counterfeiting of Government securities. It manufactures inks and plates used for its products; purchases materials, supplies and equipment; provides maintenance services for its buildings and plant machinery and equipment; and stores and delivers its products in accordance with requirements of customer agencies. The Bureau is responsible for the accountability and destruction of its security waste products. The Bureau also renders services to other Government agencies such as security, custodial and elevator services in areas of one of its buildings occupied by another Treasury bureau.

The total cost of sales and services is estimated to be $193 million in 1986 and $203 million in 1987, as compared with actual costs of $187 million in 1985.

The budget estimates are determined primarily by two factors, namely (1) the volume of production of the various items needed to meet the estimated requirements of customer agencies, and (2) the unit cost of manufacturing each type of item produced. The unit cost of production of each item manufactured is developed through a detailed system of cost accounting, and adjusted to reflect all known factors which will affect the cost of production during the current and budget years. Such factors include pay rate and material price increases expected to occur during the current year, as well as estimated savings resulting from improvements in production procedures.

Summary of Work Programs

In fiscal year 1985, the Bureau delivered 6.4 billion currency notes and 32.4 billion postage stamps. The record currency delivery for fiscal year 1985 represents a 9% increase over deliveries for fiscal year 1984.

For fiscal years 1986 and 1987, projections for currency deliveries, as reported in the Bureau's budget, are 6.4 and 6.7 billion notes, respectively. However, the Federal Reserve System has since increased its requirements to 6.6 and 6.9 billion currency notes in fiscal years 1986 and 1987, respectively. The projected postage stamp deliveries are 34.2 and 30.0 billion stamps for fiscal years 1986 and 1987, respectively.

Despite labor and material price increases in 1985, the Bureau was able to limit billing rate increases to less than half the rate of inflation. In October 1985, the rate per thousand notes was increased from $25.65 to $26.00, a 1% price increase.

The Bureau's continued success in achieving cost efficiences results from its aggressive and systematic incorporation of new technologies and related equipment. Our capital equipment requirements will continue to increase to provide sufficient capacity to produce a currency program expected to grow in excess of 25% over the next five years. Currently, state-of-the-art Currency Overprinting and Processing Equipment with in-line packaging (COPE-PAC) are being installed. This equipment along with our recently installed intaglio currency presses greatly enhances our capabilities to meet increasing customer production requirements. The Bureau has also initiated efforts to acquire postage stamp mechanical examining machines, which will significantly increase the productivity of the postage stamp examining process over the current manual process. Additionally, major developmental projects are proceeding on schedule, including the exploration of technologies associated with web currency production and the incorporation of laser technology in engraving processes. The successful development of these advanced concepts will result in significant long-range personnel and cost savings.

Productivity

In 1985 the Bureau achieved an overall productivity increase of greater than eight percent. During fiscal year 1985 the Bureau continued to achieve record production for currency and maintained a high volume of postage stamps. The Bureau's latest productivity improvement continues the trend of the previous five years. The Bureau's productivity gains are a direct result of the enthusiastic support of the Bureau workforce, an aggressive capital equipment modernization program, and an increased emphasis on research and development.

In fiscal years 1986 and 1987, the Bureau anticipates a continuance of strong productivity achievements, as a result of our technological improvement program.

Administrative Streamlining

As a part of the Treasury Department's overall efforts to improve administrative efficiency and reduce costs, the Bureau has set a goal to reduce FTE's dedicated to administrative functions by ten percent during FY 1987. We anticipate that these reductions will be achieved through office automation and other systems applications which will improve the productivity of administrative employees. We expect to be able to accomplish our goal with little or no degradation of services.

Technological Improvements

The Bureau continues to pursue an extensive technological improvement effort. This effort is geared to improving productivity and reducing the cost of operations. The expected improvements reflect the use of currently available technology, and technology that will be developed in the future, as identified below:

Currency Overprinting and Processing Equipment With In-Line Packaging (COPE-PAC) - In fiscal year 1983 and 1984, a contract was awarded for nine COPE-PAC machines. Two of the existing COPES will be retrofitted with packaging lines, which will make a total of eleven available. Four of the nine machines contracted for have been installed and are operational, with the remainder awaiting delivery. This new equipment permits packaging of completed 4,000-note units, referred to as bricks, directly in-line with the currency overprinting and processing equipment. It incorporates the operations of printing serial numbers, Treasury seals, Federal Reserve seals and bank numbers, inspecting, counting, banding, and shrink wrapping, with automatic mechanical transfer of the work between operations. The finished bricks are delivered from the COPE-PAC, ready for shipment to the Federal Reserve Banks, a significant enhancement to product security. This new process allows the Bureau to absorb increased production requirements with existing workforce levels, thereby decreasing costs per unit. When all lines are fully operational, this equipment will increase production capacity for currency by over 35 percent.

Mechanical Examination of Postage Stamps - The Bureau's successful application of mechanical examining technology to currency has propelled recent efforts to apply the same technology to postage stamps. During FY 85, specifications for a roll-to-roll stamp examination system were completed. Proposals have been solicited and an award of a contract for equipment should be made during FY 86. In order to complete the improvement in the sheet stamp operation, specifications for sheet-fed final inspection and packaging machines have been completed and a contract should be awarded by the close of FY 1986. These two acquisitions will substantially reduce dependence on the highly labor intensive methods currently employed.

Rotogravure Press (E Press) - During FY 1987 a replacement for the Bureau's aging 7-color Rotogravure Press will be sought. A more productive and environmentally acceptable press will be acquired. The Bureau is a leader in the use of water-based gravure inks for high quality products.

500/3,000/5,000 Stamp Coilers - The Bureau will acquire 500/3,000/5,000 Stamp Coilers which will replace equipment that is nearly 25 years old. This equipment, which will operate in a manner similar to the 100 stamp coilers acquired in fiscal year 1982, will improve productivity while maintaining existing capacity. A precise estimate of productivity improvement is not currently available due to its developmental nature. A contract is expected to be awarded for this equipment during fiscal year 1987.

Multicolor Web Intaglio Press (F Press) - Procurement of this press was initated early in FY 1986. It will increase the Bureau's intaglio stamp production capacity and reduce the load on existing intaglio presses which will both extend their useful lives and enhance productivity.

Postage Stamp Booklet Packaging Equipment - This equipment was contracted for in fiscal year 1984 and delivered in late 1985. This equipment will automate the unloading and packaging functions, and produce packages meeting the Postal Service's requirements for security and accountability. The unit package will contain twenty-five booklets instead of the present three hundred. This will significantly reduce the manual counting and handling tasks which result from dealing with a large number of loose booklets. The package will be transparent, permitting verification of the contents before opening the security seal. This equipment is expected to be in production by the summer of 1986.

Off-Line Postage Stamp Perforator/Sheeters - This equipment perforates and cuts a continuous web into sheets. It replaces in-line equipment. This new equipment permits the postage stamp printing presses to operate at full speed and achieve maximum efficiency. Four off-line perforators are currently operational.

Automated Vaults - The use of modern Automatic Storage and Retrieval techniques, in combination with new multi-floor (high-rise) vaults, is being investigated. If feasible in our current facilities, operating costs will be reduced, security will be enhanced, and ground level storage space will be made available for manufacturing. An Architectural and Engineering Services contract was initiated early in FY 1986 for this purpose.

Future Technological Improvements

Application of Automatic Control Systems - A study was initiated, starting in fiscal year 1983, to determine what production and support processes lend themselves to the application of automatic control systems. At present, applications in the chrome plating and waste water treatment operations appear promising. The purpose of this effort is the attainment of fully automated control of these processes. Studies that are expected to identify further applications for this concept are continuing.

Prototype Web-Currency Press - As part of our long term efforts to develop and apply web printing technology to the printing of U. S. Currency, a prototype web press will be acquired. The

prototype will provide the Bureau the opportunity to gauge the feasibility of web technology to print currency. Also the prototype press will be developed to operate as part of a much larger, sophisticated system of integrated or interrelated technologies to print, number and overprint, examine and package currency in a continuous flow from a roll of paper to plastic wrapped containers. Successful development and installation of the press alone could provide significant productivity improvements over our present printing capabilities.

Pre-Press System (Design Center) -The Bureau has initiated the procurement of a computer-based design center that will enable the Bureau to significantly cut the time between conceptual design and the completion of plates and/or cylinders.

Pre-Press System (Laser Cylinder Machine) - Laser technology is being investigated as a possible state-of-the-art approach to improving productivity in engraving operations. If proven feasible, laser technology would be employed in conjunction with high-resolution computer scanning. Combining these technologies would eliminate several manual engraving processes. Conceivably, through computer scanning, an artist's drawing would be converted into an electronic signal which then would control the movement of a laser beam across a steel plate, producing the engraving. An estimate of potential productivity improvement is not available due to the developmental nature of this project.

Environment

Through the Environmental Quality Resource Program, the Bureau continues to monitor its environmental performance, and is striving to maintain pace with changes in environmental regulations, at both the local and Federal levels, so that the operational impact of such regulations are anticipated and minimized.

The Bureau has worked closely with the District of Columbia to formulate new atmospheric environmental regulations which are consistent with the goals of the Clean Air Act. The regulations provide enough regulatory flexibility to allow operation of new printing equipment, which is required to meet short-term increases in production capacity. The Bureau, however, is faced with large increases in demand for its products, and will be hard-pressed to find sufficient emission offset credits to continue to meet regulatory requirements through the end of the decade. In order to accommodate expansion, the Bureau will install environmental control devices, wherever feasible. We are actively pursuing new ink-curing technology, alternate printing methods, ink reformulation, and other natural substitutions to assist in the reduction of emissions.

Counterfeit Deterrence Technology

The Bureau has established an active Advanced Counterfeit Deterrence Program, which includes both in-house and contractual research and development, and on-going reviews of state-of-the-art technologies. Our major goal is to maintain the very highest level of public confidence in United States currency.

Evolving reprographic technology and the increased availability of sophisticated graphic arts technology are increasing the threat of counterfeiting. This increasing counterfeit threat has resulted in an intensification of our counterfeit deterrence efforts. In concert with the Federal Reserve Board, plans are underway to adopt a technology to verify currency authenticity. We are thoroughly researching the feasibility of certain deterrents, with an aim towards incorporating the most effective ones into the currency within the next few years. Associated with the new counterfeit deterrence methods are challenges related to application or incorporation of deterrence features to the currency note, and the evaluation of the durability of the features themselves.

DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING FUND
BUREAU OF ENGRAVING AND PRINTING

Summary of Bureau Activities for Fiscal Years 1985, 1986 and 1987

	Number of Units Delivered (In Millions)			Income (In thousands)		
	Actual	Estimated		Actual	Estimated	
	1985	1986	1987	1985	1986	1987
Federal Reserve Notes	6,426	6,352	6,731	$164,325	$162,929	$177,830
U.S. Postage Stamps	32,386	34,200	30,000	66,262	69,207	65,738
Revenue and Other Stamps	713	66	75	525	836	994
Securities, commissions, certificates, etc	7	7	5	2,980	3,067	867
Uncut Currency	....	....	....	1,377	800	840
Total Bureau Products	39,532	40,625	36,811	$235,469	$236,839	$246,269
Space utilized by other agency and other miscellaneous services				$ 3,696	$ 3,738	$ 3,924
Total income from operations				$239,165	$240,577	$250,193
Total cost of operations				$186,809	$193,032	$202,643
Profit or loss (-)				$ 52,356	$ 47,545	$ 47,550

DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING FUND
BUREAU OF ENGRAVING AND PRINTING

Statement Showing Comparison of Units Delivered, Cost, and Rate per thousand Units for Fiscal Years 1985, 1986 and 1987

Description	FY 1985 Units Delivered	FY 1985 Cost	FY 1985 Rate Per "M" Units	FY 1986 Units Delivered	FY 1986 Cost	FY 1986 Rate Per "M" Units	FY 1987 Units Delivered	FY 1987 Cost	FY 1987 Rate Per "M" Units
Currency:									
Federal Reserve Notes	6,425,600	$116,741	$18.1626	6,352,000	$117,648	$18.5179	6,731,000	$129,897	$19.3008
United States Postage Stamps:									
Sheet	7,407,500	$ 9,751	$ 1.3164	6,810,000	$ 8,480	$ 1.2451	5,086,000	$ 6,941	$ 1.3647
Book	6,038,891	15,137	2.5066	6,928,000	15,809	2.2819	5,753,000	14,683	2.5526
Coil	14,788,111	22,087	1.4935	16,268,000	24,034	1.4774	15,017,000	24,149	1.6081
Commemorative	1,542,975	6,698	4.3413	2,640,000	12,035	4.5587	2,640,000	12,711	4.8148
Special Issue (Sheet Work)	2,081,100	4,988	2.3969	1,300,000	3,477	2.6746	1,250,000	3,529	2.8232
All other postage stamps	527,693	3,587	....	254,000	1,871	....	254,000	1,975	....
Total Postage Stamps	32,386,270	$ 62,248		34,200,000	$ 65,706		30,000,000	$ 63,988	
Revenue & Other Stamps:									
Internal Revenue -									
Red Strip for distilled spirit									
Over ½ pint	660,005	$ 376	.5703	....	....	....	....	....	....
Less than ½ pint	29,000	15	.5319	....	....	....	....	....	....
Other Internal Revenue Stamps	2,626	36	....	....	....	....	....	....	....
Other Revenue Stamps (Puerto Rican, etc.)	20,674	180	....	66,000	$ 2,417	....	75,200	$ 2,789	....
Total Revenue & Other	712,305	$ 607		66,000	$ 2,417		75,200	$ 2,789	

DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING FUND
BUREAU OF ENGRAVING AND PRINTING

Statement Showing Comparison of Units Delivered, Cost, and Rate per thousand Units for Fiscal Years 1985, 1986 and 1987

Description	FY 1985 Units Delivered	FY 1985 Cost	FY 1985 Rate Per "M" Units	FY 1986 Units Delivered	FY 1986 Cost	FY 1986 Rate Per "M" Units	FY 1987 Units Delivered	FY 1987 Cost	FY 1987 Rate Per "M" Units
Miscellaneous Products:									
Securities, Commissions, Certificates, etc.	6,359	$ 2,563	....	7,323	$ 2,723	....	4,908	$ 1,205	....
Uncut Currency	....	954	....	....	$ 800	....	....	$ 840	....
Total Misc. Products	6,359	$ 3,517		7,323	$ 3,523		4,908	$ 2,045	
Total Products	39,530,534	$183,113	....	40,625,323	$189,294		36,811,108	$ 198,719	
Services for Space Utilized by another agency	....	$ 1,970	....	....	$ 1,986	....	....	$ 2,085	....
Other direct charges for Miscellaneous Services	....	$ 1,726	....	....	$ 1,752	....	....	$ 1,839	....
Total Service	....	$ 3,696	....	....	$ 3,738	....	....	$ 3,924	....
Total Products and Services	39,530,534	$186,809	....	40,625,323	$193,032	....	36,811,108	$ 202,643	....

1/ Since the products included in these categories are produced in varying amounts and at different unit cost rates, the showing of composite rates would not be meaningful.

DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING
BUREAU OF ENGRAVING AND PRINTING FUND

Financial Condition (in thousands of dollars)

	1984 actual	1985 actual	1986 estimate	1987 estimate
Assets:				
Fund balance with Treasury	$57,082	$91,764	$91,879	80,379
Accounts receivable (net)	22,180	26,771	35,606	47,356
Advances made	643	215	215	215
Inventories:	29,045	25,950	26,654	40,150
Fixed assets (net)	52,203	67,948	100,980	117,974
Other assets (net)	43,725	40,042	48,032	66,930
Total assets	204,878	252,690	303,366	353,004
Liabilities:				
Accounts payable	14,429	10,342	13,073	14,754
Accrued Liabilities:				
Payroll	3,685	3,815	3,930	4,048
Leave	4,536	4,737	4,879	5,025
Constructive receipts	1,365	603	609	615
Other	4,335	4,372	4,501	4,633
Trust and deposit	500	745	750	750
Advances from other Government agencies	916	466	469	474
Total liabilities	29,766	25,080	28,211	30,299
Government equity:				
Unexpended budget authority:				
Unobligated balance	34,704	62,929	64,379	65,289
Undelivered orders	52,225	70,214	75,129	80,388
Unfinanced budget authority:				
Unfilled customer orders	(36,790)	(39,473)	(40,020)	(48,028)
Invested capital and earnings	124,973	133,940	175,667	225,056
Total Government equity	$175,112	$227,610	$275,155	$322,705

DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING
BUREAU OF ENGRAVING AND PRINTING FUND

Financial Condition (in thousands of dollars) - Continued

	1985 actual	1986 estimate	1987 estimate
Analysis of Changes in Government Equity			
Paid in capital:			
Opening balance	$32,310	$32,310	$32,310
Transactions	—	—	—
Closing balance	$32,310	$32,310	$32,310
Retained income:			
Opening balance	142,802	195,301	242,846
Transactions:			
Net operating income or loss (-)	52,476	47,545	47,550
Net non-operating income or loss (-):			
(a) Gain from sale of equipment	(120)	—	—
Prior period adjustment	143	—	—
Closing balance	195,301	242,846	290,396
Total balance equity (end of year)	$195,301	$242,846	$290,396

DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING
BUREAU OF ENGRAVING AND PRINTING FUND

Revenue and Expense (in thousands of dollars)

	1985 actual	1986 estimate	1987 estimate
Revenue from Sales:			
Currency	$164,325	$162,929	$177,830
U. S. Postage Stamps	66,262	69,207	65,738
Internal Revenue and Other Stamps	525	836	994
Securities, Commissions, Certificates, Etc.	2,980	3,067	867
Uncut Currency	1,377	800	840
Space Utilized by Other Agencies and Other Miscellaneous Services	3,696	3,738	3,924
Total Revenue from Sales (carried forward)	$239,165	$240,577	$250,193

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DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING
BUREAU OF ENGRAVING AND PRINTING FUND

Revenue and Expense (in thousands of dollars) - Continued

	1985 actual	1986 estimate	1987 estimate
Revenue from Sales (brought forward)	$239,165	$240,577	$250,193
Operating Costs:			
Manufacturing labor	51,421	55,443	58,196
Salaries and other indirect labor	34,986	36,631	38,450
Employer's share of personnel benefits	11,415	13,182	13,837
Benefits for former employees	19	....	....
Direct material	45,279	45,179	47,423
Factory and other supplies	5,957	7,602	7,980
Depreciation and amortization	10,024	10,532	11,055
Standard level user charges	812	869	912
Rent, communications and utilities	7,302	10,994	11,540
Uncut currency	1,280	1,595	1,674
Other Services	12,460	8,601	9,028
Repair parts and supplies	3,327	3,347	3,513
Travel and transportation of persons	542	500	550
Transportation of things	130	149	156
Printing and reproduction	194	219	230
Minor equipment	351	263	276
Insurance claims and indemnities	1	1	1
Total Operating Cost	185,500	195,107	204,821
Less: Cash discounts, etc.	-29	246	258
Maintenance shop costs capitalized	1,660	1,829	1,920
Add: Net increase (-) or decrease (+) in finished goods and work in process inventories	2,820	-	-
Adjusted Cost of Sales	$186,689	$193,032	$202,643
Operating Income or Loss (-) from Sales	$ 52,476	$ 47,545	$ 47,550
Nonoperating Income or Loss (-):			
Sale of equipment:			
Proceeds from sale	7	....	....
Net book value of assets sold	127	....	....
Net loss from sale of equipment	....	....	....
Nonoperating Income or Loss (-) from Sales	(120)	....	....
Net income or loss (-) for the year	$ 52,356	$ 47,545	$ 47,550

Bureau of Engraving and Printing
Bureau of Engraving and Printing Fund

DETAIL OF PERMANENT POSITIONS

	Actual FY 1985	Estimate FY 1986	Estimate FY 1987
Senior Executive Service 1	...	...	...
Senior Executive Service 2	2	...	...
Senior Executive Service 3	2	3	3
Senior Executive Service 4	...	1	1
Senior Executive Service 5	1	1	1
Subtotal	5	5	5
GS/GM-15	19	19	19
GS/GM-14	42	42	42
GS/GM-13	49	49	49
GS-12	70	70	70
GS-11	55	55	50
GS-10	4	4	4
GS-9	37	35	30
GS-8	21	20	20
GS-7	50	50	50
GS-6	42	40	40
GS-5	85	83	79
GS-4	72	70	67
GS-3	19	19	17
GS-2	2	2	2
GS-1	1	1	1
Subtotal	568	559	540
Ungraded	1,679	1,634	1,572
Total permanent positions	2,252	2,198	2,117
Unfilled positions, end of year	40	40	36
Total permanent employment, end of year	2,292	2,238	2,153

THURSDAY, MARCH 6, 1986.

DEPARTMENT OF THE TREASURY

WITNESS

HONORABLE JAMES BAKER III, SECRETARY OF THE TREASURY

Mr. ROYBAL. The committee will come to order. The committee is in session this morning to hear from the Secretary of the Treasury with regard to the budgetary request for fiscal year 1987. Mr. Baker, will you please proceed in any manner that you may desire.

Secretary BAKER. Mr. Chairman, in view of the delay in getting started, I think it might be more productive for the committee and for us if I simply ask that you have my statement entered into the record and I will be delighted to go ahead and start taking questions.

Mr. ROYBAL. We do have that statement and that statement will appear in the record in its entirety at this point.

[The prepared statement of Secretary Baker follows:]

STATEMENT OF THE HONORABLE JAMES A. BAKER, III

SECRETARY OF THE TREASURY

HOUSE COMMITTEE ON APPROPRIATIONS

SUBCOMMITTEE ON TREASURY, POSTAL SERVICE

AND GENERAL GOVERNMENT

MARCH 6, 1986

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE:

I am pleased to appear before this Subcommittee to discuss the operating budget for the Treasury Department for Fiscal Year 1987.

You have listened over the last few weeks to representatives from most of our operating bureaus. The programs and initiatives we anticipate for the coming year have been explained at some length, so my comments will serve as an overview, and more importantly, as an endorsement of their plans.

Last month at the full Committee hearing, I appeared as one of the President's chief economic spokesmen. We discussed the economy and the Federal Budget. I underscored the importance of a growing economy to improving the budget picture and pointed out that during the current expansion, strong economic growth has been achieved with much less inflation than in the late 1970's. We must strive to extend that good record into the future. Continued economic expansion will require reducing the deficit and balancing the budget by FY 1991. This will not be easy, but the effort deserves strong bipartisan support.

Today I am before you, not as economic spokesman, but as the chief operating officer of one of the Nation's major departments.

For instance, we administer the Nation's tax system and collect the government's revenues. We manage the government's fiscal affairs, including paying its bills and financing its debt. We manufacture the Nation's currency and coin. We help regulate our country's financial institutions. We process passengers and cargo coming into the country and enforce both import and export laws. We carry out basic Federal law enforcement responsibilities, including protecting the President and Vice-President. We participate in efforts to combat illegal drug trafficking, and administer firearms and explosives laws. Finally, we advise the President on monetary, economic, financial and tax policies.

In order to continue to carry out these essential governmental functions, we are requesting a total FY 1987 budget for the Department of the Treasury of $6.0 billion and 129,127 FTE positions. (These funding and staffing totals include $5.6 million and 75 positions for the orderly shut-down of the General Revenue Sharing program. The Appropriations Subcommittee for Housing and Urban Development and Independent Agencies will review that request.)

Our FY 1987 budget request for Treasury operating programs represents an increase of $364 million, or 6.5 percent above the proposed level for FY 1986.

In addition to the request for Treasury operating programs, the FY 1987 Budget includes proposed legislation for $78 million and 1,664 FTE in order to provide for the management and liquidation of the Small Business Administration loan portfolio. This relates to the proposed termination of the Small Business Administration, as reflected in the President's Budget. It is our understanding that this request will be taken up by the Commerce, Justice, and State Subcommittee.

Our budget has seven major objectives:

I. At the top of the list is protecting the integrity of the tax administration system.

The experiences of the 1985 tax filing season were deeply troubling to the Department and a source of great frustration to the taxpaying public. It is my belief that a recurrence of the problems that plagued the IRS last year would have a corrosive effect on our society and a devastating impact on the willingness of our citizens to comply with the system. This erosion of public confidence has a big price tag: a one percent drop in voluntary compliance results in a revenue loss of almost $6 billion. This is clearly a case where an ounce of prevention is worth a pound of cure.

We have reviewed closely the requirements for tax processing and taxpayer service and have developed appropriate requests for FY 1986 and FY 1987 to address these needs. We have designed our budget requests to revitalize the tax system and restore public confidence in its effectiveness. We learned a lesson from last year and intend to ensure adequate funding and to stretch each dollar to its fullest.

At this point, Mr. Chairman, I'd like to emphasize the importance of timely consideration of the IRS supplemental. As you know, we have submitted a $340 million supplemental request for FY 1986. The supplemental will:

- improve the quality of tax processing operations through more management oversight and employee training;
- increase service center staffing to stay current with the work load; and
- provide taxpayer service levels that are responsive to taxpayer requests for information and account status.

Mr. Chairman, I cannot overstate the importance of the supplemental funds to IRS operations, both now and in the foreseeable future. In order to maintain current activity levels and allow for the logistical continuity of operations, prompt action on the full amount of the request is critical.

II. Our second objective is to strengthen the capability of the IRS to promote tax compliance and generate revenue.

In FY 1986, the supplemental request will enhance the following enforcement and revenue producing activities:

- o hiring and training of audit staff in advance for a major drive to increase tax revenues in FY 1987 as part of a three-year revenue initiative;
- o increased actions against abusive tax shelters and attention to currency transaction reports; and
- o assistance to states in carrying out audits of foreign and domestic activities of multinational firms.

In FY 1987, we intend to build a stronger and more credible deterrent against noncompliance with tax laws. In FY 1985, IRS faced an estimated tax gap -- taxes owed but not paid -- of over $100 billion. This gap has risen 358 percent from $29 billion in 1973, when the IRS first began estimating it. This continued erosion of our receipts base through noncompliance undermines the confidence of the general taxpayer and needlessly adds to the budget deficit.

The cornerstone of the request is the previously mentioned revenue initiative which will yield $10 billion by FY 1991. We are also seeking funds for other high-yielding activities. These include faster litigation of pending tax shelter cases to reduce case backlog and the resolution of unreported income cases disclosed through the document matching program.

III. Our third budget objective is to meet our law enforcement and protection responsibilities.

The FY 1987 budget for Customs provides for stabilization of the investment in drug interdiction and overall staffing levels at approximately the 1985 level. The requested funds will permit Customs to:

- o enforce our Nation's import and export laws through the processing of 7.4 million entries of merchandise, 99 million carriers and over 303 million passengers;
- o collect over $15 billion in revenue; and
- o operate the recently acquired tools to combat drug trafficking.

The requested funding for the Secret Service will help us prepare for the 1988 Presidential campaign and protect foreign dignitaries visiting the 1987 Pan American Games. The Service will acquire sophisticated equipment to better support its protective efforts.

The Bureau of Alcohol, Tobacco and Firearms' budget will continue efforts to ensure the collection of all alcohol and tobacco excise taxes and to reduce the criminal use of firearms and explosives. We estimate BATF revenue collections at approximately $10 billion in FY 1987.

58-805 O—86——12

Bureau of Engraving and Printing
Bureau of Engraving and Printing Fund

AVERAGE GRADES AND SALARIES

	Actual FY 1985	Estimate FY 1986	Estimate FY 1987
Average ES salary	66,513	66,513	66,870
Average GS grade	8.46	8.40	8.37
Average GS salary	25,299	25,095	24,853
Average salary of ungraded positions	30,584	30,584	31,807
Average grade, grades established by act of (date and code citation)	...	...	...
Average salary, grades established by act of (date and code citation)	...	...	...

CONSULTING AND RELATED SERVICES

Bureau obligations include amounts to cover various special studies and analyses which include analytical testing of inks; development and implementation of automated systems; analysis of the world market for securities production equipment; and a chromium plating facility.

Bureau of Engraving and Printing
Bureau of Engraving and Printing Fund

CONSULTING AND RELATED SERVICES

	Actual 1985	Estimate 1986	Estimate 1987
Consulting Services	17	370	50
Management and Professional Services	...	...	...
Special Studies and Analyses	148	200	22
Management and Support Services for R&D	...	...	...
Total Consulting and Related Services	165	570	72

In FY 1987 the Federal Law Enforcement Training Center will institute a new policy of funding only the direct costs of basic training. Participating organizations will assume responsibility for the respective costs of the student's travel, meals and lodging.

IV. The fourth budget objective is to supply the resources necessary to manage the Nation's finances and service the Nation's debt. This includes:

- o continuing the Administration's efforts to improve cash and credit management; and
- o putting into operation the "Treasury Direct" System for the issuance of marketable securities to individual investors.

V. Fifth, we must ensure adequate currency and coin to meet the Nation's demands. The requests for the U.S. Mint and the Bureau of Engraving and Printing will accomplish this objective.

VI. Sixth, we must provide for appropriate policy formulation and management oversight of Departmental operations. The Department develops and carries out the Nation's economic, financial and tax policies. In recognition of the Department's critical role in the Nation's economic affairs, the President has given the Department responsibility of chairing his Economic Policy Council.

As you are well aware, we are spearheading tax reform. The President believes that tax reform is of the highest priority; our tax system must be simpler, fairer and encourage economic growth. The Department is also advancing an initiative for sustained economic growth to help developing countries cope with their debt service problems.

Last fall in conjunction with the other G-5 countries, we initiated actions to improve the U.S. trade deficit by bringing an overvalued dollar into better balance with their currencies. As a follow-on to those initiatives, the President has directed the Department to determine if a more comprehensive restructuring of international monetary relationships should be discussed with other nations.

VII. Finally, Treasury's budget continues the critical modernization efforts begun in previous years. We believe that investments in information systems pay off generously in increased efficiency over the long run. For example:

- For the IRS, requested funds will continue the Automated Examination System. The increased productivity from this initiative will enable IRS to collect additional revenue of $5.1 billion through 1991.
- In the Customs Service, we need to move forward with development of the Automated Commercial System and the Treasury Enforcement Communications System. These systems will enhance productivity and effectiveness.

- o In the Fiscal Services, we will continue to modernize the government's disbursement and collection systems, relying on electronic systems as opposed to inefficient and costly paper-based procedures

In summary, our $6.0 billion request for the Department of the Treasury represents:

- o a necessary investment in the IRS to preserve the integrity of the tax system;
- o a prudent investment in the IRS to increase tax compliance and consequently make a major contribution to deficit reduction; and
- o the responsible preservation of the other essential governmental functions of the Department.

Mr. Chairman, that concludes my opening remarks. I shall be happy to answer any questions that you or the other Subcommittee Members may have.

* * * * *

Mr. ROYBAL. Is there anyone else in your group that would like to present a statement of any kind?

Secretary BAKER. No, sir.

Mr. ROYBAL. Mr. Rogers, you don't have a statement?

Mr. ROGERS. No, sir.

Mr. ROYBAL. Then we will proceed with questions. What we will do, Mr. Baker, is try to live up to the five-minute rule in the first go around and then divide the time equally among the members that are present with the balance of the time in an effort to finish within an hour.

Secretary BAKER. Thank you, Mr. Chairman.

Mr. ROYBAL. I will start the five minutes now and ask the following questions.

For the past several years, this committee has recommended and the House has passed bills which involved the Administration's budget request for IRS. For several years we have been concerned about the break down in the tax administration system.

Last year that break down in processing tax returns occurred and as a result, many thousands of tax payers did not get their refunds when they were due. Now we all want to cut back on unnecessary government spending but sometimes those cutbacks, such as those involving IRS, cause real problems that hurt the people of this country.

Can you tell the committee what actions have been taken to ensure that the problems regarding tax refunds will not occur again this year?

PROCESSING TAX RETURNS

Secretary BAKER. Mr. Chairman, we acknowledge the 1985 filing season problems. We have been taking some steps, IRS has taken some steps to remedy those for 1986 and they advise me that so far so good.

We have as you know a request for a $340 million supplemental for the Internal Revenue Service for fiscal 1986 and we see that supplemental as critical to our mission as far as the Internal Revenue Service is concerned.

I think it is fair to say that we would also have to acknowledge that some of those problems came about as a consequence of reductions that were made in prior year funding for IRS.

APPROPRIATIONS BILL VETO

Mr. ROYBAL. Now that supplemental request is under consideration by the committee. However, we take note of the fact that this committee did, in fact, appropriate $176 million above the President's budget last year and that we felt that that was most necessary to carry on the functions of IRS.

Nevertheless, the bill was vetoed. It was my understanding that it was vetoed because of the fact that it was over the President's budget in revenue foregone and over the President's budget in other items such as Customs, which are most important and, except for the U.S. Postal Service, revenue-producing departments. I was surprised that there was not more support from Treasury for the committee's position.

What happened, Mr. Baker?

Secretary BAKER. Mr. Chairman, we supported enactment. We did, I think, it is fair to say acquiesce in the veto and the major objections that the President had to the bill were not with respect

to IRS and, in fact, we notified the committee, I think, or at least the conferees by letter toward the end of October of last year urging approval of the House level.

I think our major problems with it were some $290 million in excess authority, including primary excess budget authority for the Postal Service, and some language provisions that included some prohibitions with respect to OPM that the President found particularly offensive.

Mr. ROYBAL. Wasn't the funding for the Postal Service mostly revenue foregone?

Secretary BAKER. Yes, sir, probably. I am talking about budget——

Mr. ROYBAL. The President's recommendation was zero as far as revenue foregone was concerned and this is a budget that subsidizes mailing privileges for the blind, for the disabled and I am really surprised at those advocating that no such assistance be made available.

Secretary BAKER. That has been the Administration's position for a number of years and the only point that I am making by citing that is that it was not IRS or Customs funding levels that in my opinion brought about that veto.

CUSTOMS RESCISSION

Mr. ROYBAL. I have one more question before my five minutes are up. That is with regard to the enforcement of our drug laws and the high priority that the Administration seems to place on the interdiction of narcotics.

In view of the vital role that the Customs Service plays in the interdiction of dangerous drugs at our border, why then does the proposed budget call for a $19 million rescission in the air interdiction program for fiscal year 1986 and $20.3 million or 27-percent reduction for the approved 1986 budget for 1987?

Secretary BAKER. Mr. Chairman, the Administration remains fully committed to the war on drugs. There was an Administration decision to stabilize our funding for the funding request for the air program.

We have at the same time, on an Administration-wide basis, committed $1.8 billion overall to the war against drugs which is a $200 million increase from the fiscal 1986 level.

The reason we are suggesting stabilizing the air program is because we are in a period, as you well know and appreciate, of very tight budget constraints and there is a legitimate debate going on within the Administration with respect to what offers the highest return in the fight against drugs: whether it is efforts at the source of the drugs in other countries, intelligence, enforcement within the borders of the United States, emphasis on money flows, or interdiction.

For that reason, it was determined that we should stabilize the funding for the air program. Now there are going to be more resources committed from our air program to the fight against drugs in fiscal 1986 as a consequence of bringing the four P-3's into operation and putting into operation additional high capacity intercept aircraft.

Mr. ROYBAL. Mr. Baker, stabilizing seems to me to be reduction.

Secretary BAKER. I don't think it is a reduction. We are talking about $52.5 million, the request we had was $52.5 million for fiscal

1986 and $54.7 million for fiscal 1987. So if you look at it from the Administration's standpoint, it is not a reduction.

Mr. ROYBAL. I would look at it from the accountant standpoint, $20.3 million or a 27-percent reduction is a reduction.

Secretary BAKER. If you want to look at it from that standpoint, then we will acknowledge that it is a reduction but it is a very minor one in the context of the size of the expenditures.

Mr. ROYBAL. I still regard it as a reduction. The truth of the matter is that the use of drugs among American people today is higher in this country than in any other industrialized nation of the world.

We will come back to the subject matter because this is a subject matter of great interest to me. My five minutes are up.

Secretary BAKER. May I say one final thing before we turn to the next questioner?

Mr. ROYBAL. Yes.

Secretary BAKER. Mr. Chairman, I agree with what you just said about the drug problem and that is why we are spending $1.8 billion in trying to solve it on an Administration-wide basis and why we are committing $200 million more overall to the fight against drugs.

Mr. ROYBAL. When my time comes around again, I would like to have you break that down as to where this money is being spent and what results you are getting.

Secretary BAKER. All right.

Mr. ROYBAL. The Chair now recognizes Mr. Lowery.

IRS, CUSTOMS STAFFING

Mr. LOWERY. Thank you, Mr. Chairman. Mr. Secretary, it is good to have you before the committee again.

Obviously, you are well aware of the problems the IRS has experienced and I feel sure we are on top of it so that we don't have federal payments from Treasury and interest assessed against the U.S. Government for late refunds.

Beyond that, when IRS, and I would throw Customs in as well, is revenue raising, and all the studies that I have seen show that for the amount of money we expend on these agencies we get back many fold, four to 12 from various reports that I have seen, and we know that we have at least a billion dollar underground economy that is operating, why have we not cracked down more with greater enforcement? Why the restrictions on staff?

Secretary BAKER. I am not sure I understand, Mr. Lowery, what restrictions on staff you are talking about with respect to IRS. We are asking for substantial increases in IRS.

Mr. LOWERY. Is it enough?

Secretary BAKER. Yes, sir. We think it is. IRS believes it is.

Mr. LOWERY. To do what? To eliminate——

Secretary BAKER. To eliminate the problems that occurred last year and to strengthen enforcement generally and prove our responsiveness to the public with expanded tax payer service, revitalize some of our tax processing activities.

Mr. LOWERY. What about the enforcement area?

Secretary BAKER. Well, and to increase our enforcement. There will be some of it committed to that. I will have to get the specific dollar amount for you.

Mr. LOWERY. If it is shown that we are gaining about ten dollars in uncollected——

Secretary BAKER. Excuse me, do you want the dollar amount on enforcement? Of the $340 million supplemental, $114 million and 650 FTE's will go to enforcement.

Mr. LOWERY. How much of that $100 billion plus underground economy are we going to bring into line with that?

Secretary BAKER. We had, as you know, a compliance initiative in the budget that is not a part of the supplemental calling for the addition of 2,500 agents per year for three years beginning in 1987 that I think will cost $1.3 billion and will pick up $10.3 billion over the period extending to 1991.

Mr. LOWERY. We are going to stay on that schedule and that is the Administration plan to deal with it.

Secretary BAKER. I don't believe there is any dispute between the legislative and executive branches with respect to that initiative. It was approved as I understand it last year and I believe the general view is it is a good proposal.

Mr. LOWERY. We have also seen rescissions for IRS in past years. Those are over in terms of personnel?

Secretary BAKER. We are asking for a $340 million supplemental. I would not think that we would be coming up here with a rescission.

Mr. LOWERY. But it has happened in the past.

Secretary BAKER. I can only speak to the——

Mr. LOWERY. To the current administration.

Secretary BAKER. Yes.

Mr. LOWERY. In all fairness, Mr. Secretary, it is a good point.

Let me move over to Customs for a second because it similarly is a revenue gathering agency, and net increases in revenue then over and above expenditures are quite dramatic. That, coupled with the increased problems as the Chairman mentioned of drug enforcement, calls for more funding not less. There are, of course, various other approaches: intelligence, out of country through DEA activity, diplomatic channels through the State Department and jaw boning, applying as much diplomatic pressure as we can on some of those other countries, in-country enforcement, interdiction.

However, in view of the Administration statements on the gravity of the problem, it strikes me that rather than have a flat $1.8 billion, we ought to be committing greater resources, particularly in the interdiction area where we have seen cuts of 770 positions in salaries and expenses.

Secretary BAKER. Excuse me, but the $1.8 billion figure represents a $200 million increase over the prior year so it is not a flat figure.

Mr. LOWERY. Not interdiction.

Secretary BAKER. No. I am talking about in the war against drugs overall.

We have, indeed, stabilized——

Mr. LOWERY. Is that enough?

Secretary BAKER. We think it is. The drug enforcement policy board is meeting now and has met now for about 10 or 11 months and is going into quite some detail, this Board is chaired by the Attorney General, quite some depth and detail with respect to what is

the best approach. Is it out of country? Is it in-country? Is it interdiction? What should be the mix of these elements?

Mr. LOWERY. But $1.8 billion and a $200 million increase, the Administration feels at this time is enough to deal with the drug problem?

Secretary BAKER. In the light of the current budget constraints, Mr. Lowery, I think it is significant that we are asking for $200 million additional.

Mr. ROYBAL. The time of the gentleman has expired. Mr. Akaka.

Mr. AKAKA. Thank you very much, Mr. Chairman. Mr. Secretary, I personally have not had the opportunity to congratulate you for being confirmed as Secretary of the Treasury and to wish you well.

Secretary BAKER. Thank you, sir.

Mr. AKAKA. I also want to tell you that for the past few days we have had Mr. Rogers and others of your staff who have represented you well here.

Secretary BAKER. Thank you very much, sir.

SUGAR PROGRAM

Mr. AKAKA. There are two things that I want to talk about. The first, is about sugar quotas and the second is about the IRS supplemental.

Mr. Secretary, I first want to commend the Administration on its recent announcement that they will comply with section 902 of the 1985 Farm Bill. That requires that a quota for sugar be implemented which will be of no cost to the government.

Recent announcements to extend the sugar quote for three months is a step in the right direction for us. I hope it is a sign that the Administration is adopting a more favorable attitude towards the domestic sugar program.

Mr. Secretary, in 1981 Congress enacted a four year sugar program and during the first three years, it was administered in such a way that there was no cost to the government but in the last year, there was some cost because an excessively high sugar quota cost the federal treasury $100 million.

In the present Farm Bill, there was bill language included that the President shall use all authorities available to the President to operate a sugar program at no cost to the federal government by preventing the accumulation of sugar acquired by CCC.

This, I feel, has strengthened the provision and my question to you, Mr. Secretary, is can you assure me that in your agency's view that you will strive to observe the Congressional intent and operate the sugar program at no cost to the federal treasury?

Secretary BAKER. I can assure you that the Treasury Department would like to see that it would operate at no cost to the Treasury. The operation of it is primarily vested as I understand it in the Department of Agriculture and although we do from time to time consider the question of the sugar program in the Economic Policy Council, but I would think that would be our intention. Yes, sir.

Mr. AKAKA. I am glad to hear you feel that way. Also, there is an inter-agency task force as we understand it that does make recommendations that affect the quotas and treasury is one of those agenies. But I am glad to hear your part of it and how you feel about that.

IRS SUPPLEMENTAL

The second question I have is on IRS and my particular concern is about the timing of the consideration of the supplemental fiscal

year 1986 which requests $340 million for 6,950 average positions for IRS.

As we look at the past three fiscal years and my concern is that the earliest any supplemental has been signed has been July 30 and then in 1984 and 1985, it was signed in mid-August. My worry again is in the timing.

If the IRS supplemental remains a general rather than an urgent supplemental, my concern is that it may run out of money before the supplemental reaches the signature stage. By summer, if it is probably not signed in time, there might be some disruption because the money is not available and we have had problems as you all know the past year and I don't think that we can afford any more disruptions.

Another problem that I anticipate is the supplemental will likely be tied to a very controversial request for Contra aid. As you know, two committees have taken it up already and this morning the Appropriations Committee has taken an adverse report out of committee to the Floor and I am hoping that the IRS supplemental doesn't get tied down there.

My question Mr. Secretary, is whether anything can be done to reclassify this supplemental so that it becomes an urgent supplemental and maybe find a way to put it on fast track.

Secretary BAKER. We would like to do that, Congressman, and we have made that request of OMB.

Mr. ROYBAL. The time of the gentleman has expired. Mr. Skeen.

Mr. SKEEN. Thank you, Mr. Chairman. Mr. Secretary, it is good to see you again. We have had a lot of your friends up here in the last couple of days and they have done a pretty good job and we are glad that you are here now.

In last year's budget $3.5 billion was set aside for the IRS and then some two months after we put this in the continuing resolution we came up with the supplemental because there was a discernment that there was some kind of a crisis. Why wasn't it decided while we were doing the continuing resolution we could not have added the money at that time rather than coming back for a supplemental?

Secretary BAKER. Congressman, I am not sure I can answer that because I don't know exactly when you were working up the CR but let me just tell you from the Department's standpoint what you allude to as a crisis, we began to and I am not sure that I would want to classify it as a crisis but whether we call it that or not——

Mr. SKEEN. It was critical. You characterized it that way in your testimony.

Secretary BAKER. The difficulties that IRS was experiencing, we began to see vividly shortly after the filing deadline in April and we saw those in some regions to a greater degree and extent than we did in others. I think we came up as soon as it was feasible to do so with a request to try for additional funds to remedy those problems.

I am really sorry I can't tell you why it wasn't in the CR.

I don't know when IRS came to the Department with it. Maybe Mr. Rogers can because he was probably involved with it at the time.

Mr. ROGERS. Mr. Skeen, after learning of the problem, the Service came forward in the summer. In terms of their request, we immediately starting negotiating with OMB about getting some sort of increase.

I had a number of conversations with committee staff here and on the Senate side. OMB, however, felt strongly as it progressed particularly toward conference that those other objectionable provisions were in there.

We, however, always through the process supported it and on October 29th I submitted a letter to the committee urging the higher level. Now originally on October 18th, prior to that OMB had put forward to the conferees their objections which were primarily the Postal subsidy and the language restriction from my understanding.

So from that point on, we have continually tried to work out the increase for IRS as part of the supplemental because as soon as the President's budget was released, we had successfully negotiated that increase with OMB.

Mr. SKEEN. The reason I am asking the question is because during the time that we were doing our considerations here, we had a sense that the funds were insufficient we were trying to anticipate the shortfall.

It was just a little bit strange to me that in just two months, they came up with the supplemental. The timing was a little bit difficult to understand. That is why I was interested in it because I felt that if we knew it was critical, I am sure that Treasury knew that they had a problem in IRS funding.

Mr. ROGERS. As you know, the Department had maintained that position all along.

Mr. SKEEN. Yes. Then what kind of communication did the Department carry on with OMB?

Mr. ROGERS. I would say that we were successful in convincing them of the need.

Mr. SKEEN. There is a lot of talk about revenue enhancement. We have talked about oil imports and I see the President has backed off of any kind of support for that approach.

Now the popular idea is amnesty and we have talked with IRS about that situation and how beneficial or counterproductive it would be.

I am sure that this is a tremendous problem because we go on the axiom here that for every dollar we put into IRS, we get ten dollars back so some wag has already said, "Well, if we just give them enough money, we will wipe out all of the deficiency problems" and that is not going to happen that way.

What I am concerned about is how quickly can we get to optimal levels on IRS funding, I think we ought to get there as soon as possible.

Secretary BAKER. I think we are taking some strong steps in that direction as a consequence of the revenue initiative that I mentioned earlier that has been approved now for several years and it is going to be coming into effect shortly which will see the addition of 2,500 agents per year for the next three years.

TAX AMNESTY

I might say that as you know, Congressman, we are studying the question of the tax amnesty but I don't think that anybody would

disagree with the suggestion that the success or lack of success of state amnesty programs has depended in large part upon how closely related they were to substantial compliance efforts. Enforcement and compliance efforts are tied into it.

Any federal amnesty that might be contemplated would have to in my opinion at least have a strong compliance component. As you know, we are currently looking at the question. We will have to advise the President on it within a reasonable time frame. The one time it seems to me if you are ever going to go for federal amnesty, you have to make it clear that it is a one-shot deal or you might create more problems than you solve by an amnesty and the one time that you might be able to make that point successfully, it seems to me, is in the context of an overall tax reform effort.

It is something that we are looking at and something that we will be making recommendations to the President on within a reasonable period of time.

Mr. ROYBAL. The time of the gentleman has expired. Mr. Hoyer.

Mr. HOYER. Thank you, Mr. Chairman. Mr. Secretary, first an observation if I might with respect to why the bill was vetoed. If in fact the OPM rider was a major reason, that was unfortunate because as you know there was a judgment made in OPM that they could defeat us the next time around and in point of fact, it was in the CR until such time as a resolution of that was made through the efforts of Congressman Wolf and myself and others.

That is unfortunate. We would ask you to weigh in a little more heavily next time because the other issues are so much more important.

SLAVE LABOR

I would like to key in two questions if I might. One is slave labor. We have talked about this before. As you know, the Helsinki Commission which I co-chair held hearings on it in New York and although I was not here yesterday, Mr. Secretary, it is my understanding that Assistant Secretary Keating indicated that there had been movement, that there was going to be action taken and I would appreciate it if you would give us your view of where we are on that.

As you know, Congressman Wolf and myself and Senator Armstrong are involved and expressed great interest in this.

Secretary BAKER. I would be glad to, Congressman. The movement to which you refer is an active review of the situation. I was asked by Congressman Wolf last year at the full committee hearing if I would undertake to review the determination of my predecessor with respect to this issue and I declined to do so at that time because that determination had only been made on the 29th of January and I think I was appearing some time in February of 1985.

A year has gone by. It seems to me to be appropriate that we do review the issue and that we do take another look at the evidence and we are in the process of doing that.

Some of our people have discussed this with the agency. They have been out there. We are actively reviewing the evidence and taking another look at it.

Now obviously this is a multi-faceted issue. It involves not just solely the availability of evidence but the adequacy of evidence and the possible adverse effect of losing any court test if we should take

action to prohibit imports of a certain item or commodity from a particular country.

It is multi-faceted also from the standpoint that there are more countries involved if I may say so than simply the Soviet Union. So it is something that we are actively looking at. I told not only Congressman Wolf that I would do this at an appropriate time but some legislators over on the Senate side as well.

Mr. HOYER. I know Senator Armstrong has met with both Congressman Wolf and myself.

Secretary BAKER. We have met with him. That is correct.

Mr. HOYER. When you say other countries, are we talking essentially about Eastern Bloc countries or are there others?

Secretary BAKER. I don't know.

Mr. HOYER. You would not be prepared to say at this time.

Secretary BAKER. I am not actively engaged in a review with respect to other countries. I simply want to make the point that this is not a one country specific question. I think I ought to also say that this is an economic statute. This law was enacted primarily for economic reasons. The standard of proof is perhaps different than it might be if it had been enacted on human rights grounds or as a foreign policy matter.

I think we have to consider all of these things in our review of the evidence on this question.

Mr. HOYER. Mr. Secretary, I am pleased to hear that you are reviewing it again. I am sure Congressman Wolf is as well and we will look forward in the relatively near future to hearing what your thoughts are as a result of that review.

TAX BILL

The last question because we are limiting our time and Congressman Wolf may ask you about this as well, both he and I and others are very concerned about the tax bill, as you know with particular respect to the consequences it has on the annuities or retirement benefits of federal employees and other situated employees in contributory retirement plans of which we believe there are anywhere between 17 and 20 million, of which 13 million are public employees and the rest are in the private sector.

Have you done some figures on the long term revenue impact of that provision being excluded from the bill?

Secretary BAKER. We think that the elimination of this—what we would refer to and you perhaps would not as special treatment for a special class of annuitants would generate $7.5 billion over the time frame 1986 to 1990.

Mr. HOYER. I understand that, Mr. Secretary. My point has been and I think it is a valid point although it is hard to get the figures from the committee staff but the reason for that $7.5 billion is because there is an immediate short term tax consequence. That is the up side.

The down side clearly is that you have a long term give back in effect because you do it on an actuarial basis so that after that 36 months or 18 average months, you have a continuing tax sheltered segment of the income.

My argument has been that it is going to be long term neutral.

Secretary BAKER. I understand what you are saying. I do not have those figures. I see the point you are making.

Mr. HOYER. I had trouble getting the figures.

Secretary BAKER. Do we have those?

Mr. HOYER. You don't have to go into it and take further time but if you have them, we would like to have them.

Secretary BAKER. I don't know why we can't run those. We have run the set. We know what we will save between 1986 and 1990. We ought to be able to find out what the hit is on the long term end.

Mr. HOYER. All right. Thank you very much, Mr. Secretary.

Mr. ROYBAL. The time of the gentleman has expired. Mr. Wolf.

Mr. WOLF. I want to welcome you, Mr. Secretary, and I just want to reiterate what Congressman Hoyer has said and also if you could check with OPM and factor in what are the retirement costs retraining costs and the replacement costs as well as other things.

Secretary BAKER. Let me acknowledge the receipt of your letter just yesterday, Congressman. We are analyzing and have those points in it.

Mr. WOLF. Thank you. I just want to read a couple more responses that we have received back. The State Department said to us with regard to this provision, the Department of State and Legislative Affairs Office reported that "over 70-percent of our senior foreign service employees are eligible to retire. An unusually large number of retirements in the first half of 1986 would unquestionably strain our ability to manage the Department."

NASA said, "although NASA has attempted to mitigate the potential problems associated with an excessive number of retirements, the loss of a large percentage of employees especially within the scientists and engineer population necessarily makes it more difficult to carry out our mission." Keep in mind the Challenger situation.

Army said just the other day that, "we expect a dramatic increase in the percentage of those eligible to retire by July 1, 1986, actually retiring in order to avoid the adverse financial impact of the Tax Reform Act provisions. In some hard-to-fill positions, we can expect upwards of 75-percent of those eligible to retire doing so. Departure of large numbers of key employees in a short term notice will disrupt operations for an extended period. The impact will be devastating."

Then I have so many others. One is from the Department of the Air Force which says that employees now eligible to retire with the proposed tax provisions" would virtually eliminate any incentive to continue working. Accordingly, we feel that implementation of the proposed change would have a negative impact on our ability to perform many of our critical missions." This includes programs like the SDI and so many others—SDI which I support.

I hope you will look at it not only from the economic point of view but also from the morale and the impact of keeping the good people that you have at Treasury and the good people that we have throughout the government.

Secretary BAKER. We will look at it, Congressman. I must say I disagree with those conclusions. At least as far as Treasury is concerned, our view is that we might see an increase of five percent. We think 33-percent of the eligibles will probably retire any way and this will bump it up to 38 percent.

Of the ones you quoted there, only the Army and the Air Force if I heard you correctly are basically saying that they expect increased retirements. The others are saying if there were significantly increased retirements, it would constrict our mission.

Mr. WOLF. That is correct.

Secretary BAKER. I think anybody would agree with that but we simply don't think that there would be the kind of retirements that you mentioned.

Mr. WOLF. With all due respect, I think there will. I just left NTSB that said that they had polled their people and the overwhelming majority, 21 eligible to retire, they investigate all the airline safety, 16 have already said they will retire.

We have talked personally with these agencies and they have polled their people and they say their people are going to retire. For a career individual, Mr. Secretary, this means up to $10,000 to $25,000. There is no incentive to stay.

Secretary BAKER. It is a sweet deal.

Mr. WOLF. It is not a sweet deal. I don't agree with you there. I will tell you, when you shake your head "no" that way, it just sort of bothers me. It is not a sweet deal. It is a situation whereby you are going to lose the good people.

IRS has lost people. Mr. Egger does not agree with you and I can see that you don't agree with me and I am sorry to see that and I will just end on this. I think you are wrong. I hope you change your mind. I hope the Administration changes its mind because what you are going to do is you are going to drive a lot of good people out.

You are going to leave this town having driven a lot of people out.

Mr. HOYER. Before the gentleman ends, will the gentleman yield for one minute?

Mr. WOLF. I will yield and I have another question.

Mr. HOYER. Talking about sweet deals, my suggestion would be that we substitute Treasury I for the pending tax bill, Donald Regan's first effort at tax reform vis-a-vis sweet deals. Nobody in my opinion ever alleged that this was a tax gimmick that 20 million Americans were getting away with.

In fact, we are not dealing with people who are really trying to shelter income in that sense. Federal employees unlike most employees in the private sector, have no 401-K program, they have no way to shelter income and I think we gratuitously say that it is a sweet deal.

Mr. Secretary, in all fairness it is not correct. When you look at the overall scheme of the fact that they have a contributory system unlike the majority of the private sector which as you well know has a non-contributory system. The employer pays the whole bag.

Now the retirement system is a good system. You are right about that. That is sort of a gratuitous wipe.

Secretary BAKER. What I really mean by that is if you look at all annuitants and all retirees, this is special treatment. There is no question about that.

Mr. HOYER. But unfortunately, the great sentiment early on was that it was a sweet deal for federal employees, the same deal in the private and public sector as it relates to contributory pension sys-

tems. There is no different treatment of public and private sector employees.

Excuse me.

Secretary BAKER. I might say that we have some reforms suggested in those areas, too, with respect to which those annuitants disagree.

Mr. HOYER. I thank the gentleman for yielding.

Mr. WOLF. May I just ask one more question.

Mr. HOYER. I apologize for using the gentleman's time.

Mr. ROYBAL. We will take the time away from Mr. Hoyer later on.

Mr. HOYER. I will yield him my time.

Mr. WOLF. I hope you change your mind on that.

Secretary BAKER. Let me say this. We are going to look at it. We just got your letter. We are going to analyze it and we are going to analyze it in depth. I don't mean to suggest that we are prejudging or that we are locked in concrete or anything else. So please understand that.

TRADE IMBALANCE

Mr. WOLF. The second issue and I will be very fast on this, there are 80 of us up here, a bi-partisan group, that has a bill to suspend the Most Favored Nation status for the country of Rumania which has clearly been violating human rights in the Orthodox Church, in the Catholic Church and in the Protestant Church.

Do you have any position on this since it is a trade issue? There is an 4:1 trade imbalance with regard to Rumania and I believe suspending the Most Favored Nation status for six months for the country of Rumania makes sense.

Secretary BAKER. I have not looked at that at all, Congressman. This is the first time that I have even heard about your bill. I don't think the action is with us. We would obviously have some input on a Most Favored Nation recommendation but I rather suspect that the State Department is the lead agency on this.

Mr. WOLF. That is correct but since it is a trade issue, you would be involved.

Secretary BAKER. I think certainly if it came before the Economic Policy Council and it is something that I suppose that we could bring up there, but this is the first time that I have heard about your bill and I haven't given any thought to the question of MFN for Rumania.

Mr. WOLF. Could you take a look at it?

Secretary BAKER. Sure. I rather suspect Commerce also is heavily involved in determinations on this.

Mr. ROYBAL. The time of the gentleman has expired. Mr. Coleman.

CUSTOMS CUTS

Mr. COLEMAN. Thank you, Mr. Chairman. Mr. Secretary, the budget that this administration sent to the Congress cut Customs by $9 million and 770 positions.

I don't care to engage in a debate about whether it cuts nine million or not but I think it does, in fact, I am sure it does. All you have to do is consider Gramm-Rudman and following that, is a $9 million cut. We tried to talk apples and oranges for a little while yesterday until Commissioner Von Raab agreed that is what it was basically, a $9 million cut.

I hope, Mr. Secretary, that it is not the Administration's position that we have sustainability with those kinds of cuts, if we are going to deal with the war on drugs. I also understand efficient and effective collection of revenues by the Customs service. I hardly think that this Administration comes to this committee with clean hands in suggesting that we are maintaining sustainability.

That is not the position that you would take as Secretary of the Treasury, is it?

Secretary BAKER. I was talking about stabilization with respect to the air program and I think we are maintaining if I understand you, if you are using those two words interchangeably, I think we are with respect to the air program.

Mr. COLEMAN. My time is not long enough, Mr. Secretary, to really get into that segment. I am worried because you have a $4 million rescission on top of a $9 million cut recommended in this budget for salaries and expenses, don't you? Is there a rationale for that? I understand that we are taking care of cuts first and then you come in with a rescission of some $4.1 million.

Secretary BAKER. I can't speak to the $4.1. You had Mr. Von Raab up here.

Mr. COLEMAN. But that is a rescission.

Secretary BAKER. I will let Mr. Rogers talk to this $4.1 million. I am sorry that I can't.

Mr. ROGERS. I think that the $4 million recission that was on top of the $30 million Gramm-Rudman level was a calculation done by the Office of Management and Budget to eliminate the add-ons that occurred from the fiscal 1986 budget and at the conference level.

I should say and not to get into deliberations that took place in the budget negotiations but I will say that that started from a $50 million rescission so it is substantially less and I would say that the Department has been successful at reducing——

Mr. COLEMAN. It is like if you use our hands and only cut off your arm right here. To me, that is the kind of logic that the Administration provides this committee and I don't accept it. I think it is wrong. I think the Administration should look at this again. You say we are fighting a war on drugs and we are proud of an increase in funding. I am not proud of this increase.

You have cuts in one segment of the war on drugs. You cut it and that is the reality of it. You cut it $19 million in a rescission that came down on air operations. Let us just talk about the fact that Customs people who work on the bridges and in the airports are doing law enforcement.

The job that they do is law enforcement. Sometimes they don't arrest somebody. That does not mean that they were not in effect doing law enforcement. We were told yesterday by Commissioner Von Raab, that Customs personnel are going to work part-time on slower days, we are going to have only certain hours that we are able to enforce laws at the bridges and airports. I hardly think that we are providing effective law enforcement at the same time we are demanding that commerce and trade between nations continues.

It seems to me to be absolutely ludicrous that we think that we are doing something about the war on drugs at all when we say that we are not going to fight it on every front.

Mr. Secretary, you said the prior year funding cutbacks have caused in part the present problems with the IRS. Are you talking about fiscal years 1982 through 1985?

Secretary BAKER. Yes, sir.

Mr. COLEMAN. The concern I think that will once again be evident when we deal with IRS this time because I think this Administration made our case for the additional funds on the question of revenue foregone. You maintain that it is the continued position of the Administration and not one that has changed that revenue foregone should be zero.

Secretary BAKER. That is correct.

Mr. COLEMAN. That part of the budget should stay at zero.

Secretary BAKER. That is my understanding.

Mr. COLEMAN. All right. Mr. Secretary, you sent a letter to Congressman Kika de la Garza on February 19 wherein you stated that the United States government does not have exchange controls and in fact, any rumors that would suggest that we might freeze bank accounts of Mexican Nationals as a result of their current difficulties were not true. Is that still the position of the Administration?

Secretary BAKER. Yes, sir. Very much so.

CUSTOMS USER FEES

Mr. COLEMAN. Thank you, sir. What is the status of the proposed user fees in terms of Customs. The deputy commissioner of Customs has informed me that the proposal for implementing such fees is in your office and is under consideration.

Secretary BAKER. It may be in the Office of the Secretary. It is not on my desk. Do you want to answer that, John?

Mr. ROGERS. The reconciliation bill has in consideration the $200 million level. We had the proposal, the Administration's original proposal, for the $500 some million level.

Mr. COLEMAN. Is that for fiscal year 1987?

Mr. ROGERS. That is exactly right, sir. That is indeed at the Department.

Mr. COLEMAN. I would just ask, Mr. Secretary, before you actually propose any fee schedule legislation that you would consider conferring with various groups in the Congress and perhaps others relative to that issue. I think the user fee issue is going to wind up being a matter of great concern to many members.

While many of us do not philosophically have great difficulty with the concept of user fees, we think that its actual administration is going to be a most difficult matter and one that can truly create great problems.

Secretary BAKER. I do not know why we would not consult, Congressman. That is our normal practice and I would say that as far as we are concerned we certainly would.

I know you and I disagree a little bit with respect to user fees and we had a colloquy at the full committee hearing, but I don't see any reason why we can't. We may disagree but at least we can disagree agreeably.

Mr. COLEMAN. Right. If we can find some way to administer the program, at least I will feel that I have had some success.

Mr. ROYBAL. The time of the gentleman has expired. Mr. Secretary, it is my understanding that you must leave here at five minutes after twelve. We realize that this meeting was called for ten o'clock. The committee had to delay that until eleven due to the fact that we had a full committee meeting, that is, the Committee on Appropriations and under the rules, the subcommittees cannot meet during the time that the full committee is in session.

Therefore, we had to prevail upon you to come in at eleven. We greatly appreciate that. We do have just a little more time. Perhaps we can give one minute to each member of the committee for one quick question, one quick statement or whatever they want to do with it and then we will submit some questions to you that you may, if you will, answer in writing as soon as possible.

Secretary BAKER. I will be glad to, Mr. Chairman.

Mr. ROYBAL. Mr. Secretary, the Narcotics Intelligence Estimate for 1984 concluded that drug use had increased 15-percent over the 1983 levels, that cocaine availability is at high levels and as much as 137 metric tons of cocaine were available for export to the United States in 1984 alone.

That may have even doubled by now. The saddest part of all is that the most recent comprehensive survey of drug use among high-school seniors found that 17-percent of the seniors in the class of 1985 had tried cocaine and 60-percent or more had tried drugs of some kind.

That, to me, is a very sad commentary which means that your children or grandchildren are in great danger.

There is no doubt in my mind that every junior high school, every high school and every college in the nation has had some problems with narcotics. Not one has been missed. It doesn't make any difference whether they are private schools or not.

So it is a tremendous problem.

Secretary BAKER. Yes, sir.

CUSTOMS CUTS

Mr. ROYBAL. I just wonder why it is that for example, the requested Customs budget decreases personnel by 770 positions when the personnel of Customs are the ones on the front line that are really doing a great deal with regard to the interdiction of narcotics. What is the rationale for such a reduction when a great problem exists?

Secretary BAKER. The rationale is what I suggested earlier, Mr. Chairman, and that is, there is a debate going on within the Administration about how we should allocate resources in the fight against drugs.

Right now as I indicated to you, overall we are suggesting spending $1.8 billion in that fight.

Mr. ROYBAL. You are going to give me a breakdown of that, won't you?

Secretary BAKER. We are going to get you a breakdown and that is $200 million more than we spent last year.

I might say that 43-percent of that is I am told for border interdiction. So we are spending a substantial amount of the total resources in the fight against drugs for border interdiction.

We need to examine the question and the figures you point out, I think, prove this up that to some degree you could agree we are not winning the fight against drugs, that there is increased usage, there is increased amounts of drugs coming into this country.

[The information follows:]

FEDERAL DRUG LAW ENFORCEMENT
FY 1987

(dollars in millions)

International Narcotics Control	$133
Border Interdiction	772
Federal Criminal Investigations	418
Federal Prosecution	139
Corrections	217
Intelligence (Drug Law Enforcement)	46
State and Local Assistance	38
Research & Development (Drug Law Enforcement)	9
Regulatory and Compliance	36
	$1,808

Mr. ROYBAL. So why the reduction of personnel?

Secretary BAKER. We are really stabilizing.

Mr. ROYBAL. You call it stabilizing. I say it is a reduction.

Secretary BAKER. I say it is a $2 million increase in the major interdiction effort of the Customs Service which is the air program. As I mentioned earlier also, we are putting assets in the field this year that we have never before been able to put in the field.

So I don't think that a general reduction in Customs should be equated solely against the fight against drugs. Customs does a lot of other things in addition to fight drugs.

Mr. ROYBAL. Of course, but a reduction still means a reduction in the personnel that deal with this problem and the problem is so great that something should be done about it.

Secretary BAKER. Most of the staffing reductions that we are suggesting and I think it is fair to say that almost all are not in the enforcement area.

Mr. ROYBAL. Mr. Secretary, for the last six years, there hasn't been a single year that reduction in staff of Customs has not been recommended.

Secretary BAKER. That is correct.

Mr. ROYBAL. Not a single year.

Secretary BAKER. That is correct.

Mr. ROYBAL. This committee has put back that personnel.

Secretary BAKER. That is right.

Mr. ROYBAL. In a lot of instances, they haven't even been used. If you have seen, as I have, what actually happens at the border and in other countries, even the growing of marijuana in California and Hawaii and in Florida that we are doing nothing about, then you can not help but conclude that the problem is so tremendous that something has to be done with this.

My one minute is more than up. Mr. Skeen.

Mr. SKEEN. Thank you, Mr. Chairman.

Mr. Secretary, I am concerned about the funding allocation for drug enforcement

I can't help but notice that the proposed increases for those agencies involved with drug enforcement got an increase. The DEA took $48 million, $9 million for FBI and $34 million for the Coast Guard. But then Customs is being asked to take a cut.

I think that is our major concern because they have the primary role in drug enforcement as you are well aware of.

Secretary BAKER. Yes, sir, I am, Congressman. Let me say one other thing. You know we all supported the Gramm-Rudman-Hollings legislation which has taken a fairly good bit out of Customs. The Chairman asked me, "Why cut Customs in the face of the drug problem?"

Mr. HOYER. Don't speak too broadly.

Secretary BAKER. Some of you did not vote for it but the fact of the matter is that it was a legislative and executive branch initiative that passed. That means that we are going to take a bit out of everything if we keep going to seek restrictions.

Mr. SKEEN. Except those that we exempt.

Secretary BAKER. Except the wool program and a few other things.

Mr. SKEEN. We didn't exempt that one.

Secretary BAKER. I think we did.

Mr. COLEMAN. Will the gentleman yield on that point?

Mr. SKEEN. Sure, I will yield.

Mr. COLEMAN. Gramm-Rudman cut 777 positions. You are asking for an additional cut of 770 positions in FY 1987.

Secretary BAKER. That is correct.

Mr. COLEMAN. Let's not talk about apples and oranges. Let's talk about 770 being cut. We understand 777. As you said, we all agreed to it.

Secretary BAKER. Congressman, the Gramm-Rudman cut was basically what you added back in last year, on top of our request. I acknowledge to you that we are indeed asking for an additional 700 this year

Mr. COLEMAN. Let me just correct that for the record. What you asked to cut, we added plus we added 623 positions above that level. I think that is the key.

Secretary BAKER. We asked for a 887 reduction last year and you added that back in plus six.

Mr. COLEMAN. Yes.

Secretary BAKER. I am not arguing that.

Mr. ROYBAL. The time of the gentleman has expired.

Mr. SKEEN. May I have just one parting shot here?

Mr. ROYBAL. Yes.

Mr. SKEEN. Since you mentioned the wool program, I would like to remind you, too, that that is one of the few programs we had in Agriculture that returns any money to the Treasury and maybe that is why it was exempt.

Secretary BAKER. Does it return money?

Mr. SKEEN. Oh, yes, it certainly does. Thirty percent.

Secretary BAKER. I didn't bring that up. I hope you don't have constituents who are interested in wool. Joe, I didn't bring it up for that reason, believe me.

Mr. SKEEN. I am sensitive being in the wool business.

Secretary BAKER. Oh, are you?

Mr. SKEEN. Of course.

Secretary BAKER. Good.

Mr. ROYBAL. Mr. Hoyer.

SLAVE LABOR

Mr. HOYER. Mr. Chairman, I will be glad to yield my one minute to Mr. Wolf so that he can put it together and have two minutes.

Mr. WOLF. I want to thank the Chairman. Mr. Secretary, I want to get back to the statement that Mr. Hoyer made. I think what you said was really a little disappointing with regard to the slave labor.

I was disappointed in what you said. It sounded like what you said today is not nearly as forceful as what Mr. Keating said yesterday.

I happened to have an opportunity of meeting with a gentleman who has spent 30 years of his life in a slave labor camp. This is what he said. He said, "I am a long term prisoner of the Soviet Gulag and know that the labor prisoners are used on large scale in a full series of concentration camps in the Soviet government. These camps belong to the wood industry, extraction and useful in-

dustries, heavy chemical and wood pulp industries, light industry and food."

He went on to say, "In the woodworking industry, they also use slave labor. The Soviet economy uses prisoners in the mining ore industry in both pits, open pits, mines. They extract coal, gold, uranium, copper, et cetera."

He goes on to mention all the camps and then he gives a citation and the dates and the times and the places and then he says, "The women work in the textile mills and the children make consumer milk products. There are women and children camps."

Bring a case. Lose it. Bring a case and see. Put the enforcement policy of your administration and our administration behind this. Bring a case. Demonstrate a commitment to it. You have had a year. The CIA people will tell you there is proof. Your people know there is proof. Customs knows there is proof. Bring a case.

Secretary BAKER. The CIA people will tell you there is proof, Congressman, and then they won't let you use it.

Mr. WOLF. Well, you use it.

Secretary BAKER. I don't plan to——

Mr. WOLF. You get it and break it out and use it. We know that it is there and we should use it.

Secretary BAKER. Let me tell you something. I don't plan to bring a case if I get shouted at one more time by you.

Mr. WOLF. I am telling you——

Secretary BAKER. I don't plan to bring a case.

Mr. WOLF. You bring a case. That is what the law is and you are obligated to enforce the law and bring a case.

Secretary BAKER. Let me tell you something. I have been trying to cooperate——

Mr. WOLF. You have been sitting on this for one year.

Secretary BAKER. I have been trying to cooperate with you.

Mr. WOLF. What you said was totally different than what Mr. Keating said.

Secretary BAKER. I think maybe we ought to just cease that cooperation.

Mr. WOLF. You can cease the cooperation.

Secretary BAKER. I don't come up here to get argued and yelled at by you, do you understand that.

Mr. WOLF. I am telling you right now, you have an obligation to bring a case. Those people have been in those labor camps for years and years.

Secretary BAKER. I will be the judge of what my obligation is——

Mr. WOLF. We know conclusively.

Secretary BAKER [continuing]. And you won't.

Mr. WOLF. I am telling you that is what the law says and you should bring a case.

Secretary BAKER. You just took five steps backwards.

Mr. WOLF. I think you have an obligation to bring a case and if you don't, you are shirking your responsibilities because conclusively the evidence is there.

Mr. ROYBAL. The time of the gentleman has expired. Mr. Coleman.

Mr. COLEMAN. I don't have any further questions, Mr. Chairman.

Mr. ROYBAL. Has everyone had his opportunity?

Mr. LOWERY. I have not, Mr. Chairman.
Mr. ROYBAL. Mr. Lowery, you may proceed.

DRUG INTERDICTION EFFORTS

Mr. LOWERY. Mr. Secretary, the testimony of the Kauffman Commission revealed in their report and some of the recommendations that I know the Administration now has under study indicate that we have to do far more on drugs.

In light of the statements that have come out of the Administration about it being a priority, it strikes me that a $1.8 billion commitment and yes, that is a lot of resources, but it is just enough and to say as you just did earlier today that we are seemingly losing the battle against drugs, we are not seemingly losing it. We are losing it. We are losing it. I look at the commitment of U.S. resources to the South Florida Task Force and I have to say that interdiction is a substantial amount of that program. And we haven't won the battle there, but while it is being waged, we are seeing a vastly stepped up effort in the southwest corridor from Texas all the way to California. Mexico has been number one as a route for the importation of heroine. It has been number one for marijuana. It still is.

It has just reached the status of number one for the importation of cocaine. Thirty-five percent of the cocaine that comes into the country comes through Mexico.

Yet in the President's budget, Customs takes hits in terms of the commitment of resources. I know revenues are scarce. I know we have made some cuts as a result of Gramm-Rudman but in supplementals, you all put them back in for IRS. I do not see that same level of commitment to put it back in for Customs.

But let me try to conclude on a positive note. User fees are being looked at. I assume that if they are collected for Customs, that they would probably go to the U.S. Treasury.

Does it not make more sense because drug interdiction is such a high priority for this country that those user fees or at least a large portion of them stay with the Customs so that we can have the resources to protect our borders from drugs and also do a better job on our borders for illegal immigration which Customs is likewise involved in?

Secretary BAKER. The Administration policy, Mr. Lowery, has been that any user fees would go to the general fund and would not be segregated for use by the particular agency levying and collecting the user fees.

The same would be true of IRS and other user fees. So if the determination is made that we need more funds in interdiction, the better way is to go ahead and appropriate more funds for interdiction, I think.

Mr. LOWERY. This committee has done that.

Secretary BAKER. Yes, sir, I know, but the real question is whether or not that is the solution or is it something else. We do have new legislation.

Mr. LOWERY. It is not the only solution.

Secretary BAKER. It is obviously a major factor. We don't disagree with that but I think it is fair to examine what the other elements of the problem are and in a period of scarce resources de-

termine where you ought to put those resources. Should it be in intelligence? Should it be in investigation?

Mr. LOWERY. A substantial amount of drug smuggling is down in Florida, and I understand there is a problem there, but there are problems elsewhere in the country and it stands to reason if we are anywhere near successful as we agree we would like to be with the South Florida Task Force, that drug smuggling problem is going to bust out all along the perimeter of this country. So what have we accomplished?

Mr. COLEMAN. Will the gentleman yield for just a quick second?

Mr. LOWERY. Of course.

Mr. COLEMAN. I have questions to submit and I would ask unanimous consent that they be entered in the record. I want us to define what we should be doing or what we shouldn't be doing and what the perspective is of you, Mr. Secretary, and this Administration. I am particularly interested in drug interdiction.

What he just suggested, you know you hear often times about low flying aircraft. There is no detection of low flying aircraft coming into the United States. Fifteen thousand feet, and it cannot be detected coming across Joe Skeen's and my district.

We have seen from the South Florida Task Florida an increase in drugs in the southwestern part of the United States and that is the only reason that we have tried to appropriate those funds that you are asking for a rescission of.

Secretary BAKER. I don't argue that, Mr. Coleman. All I guess I am saying is that we have deficiencies in interdiction. We have deficiencies in intelligence. We have deficiencies in our programs in other countries to stop drugs. The question is where should we allocate our scarce resources. What is the best use of those?

To be very honest, what should we do on the demand side too? We need to be addressing that question.

Mr. LOWERY. Absolutely. The only point I want to make is that we have very lax policies on our borders as a country, very lax.

Mr. COLEMAN. Mr. Secretary, you don't cut education programs for the demand side.

Secretary BAKER. I come from one of those states where I see it first hand.

Mr. LOWERY. The problem on immigration, on drugs and illegal contraband and trade is all getting worse and we are not improving the situation by continuing to make cuts in our enforcement policies. That is the only point that I wanted to leave with you, Mr. Secretary.

Mr. ROYBAL. The time of the gentleman has expired. Mr. Secretary, we thank you for your presentation this morning and we are sorry that we were a bit late. The subcommittee is adjourned.

[Question for the record and the answers thereto follow:]

MR. COLEMAN: The Administration is seeking a rescission of $19.275 million from the Fiscal Year 1986 Air Operations and Maintenance account of the U.S. Customs Service. I would like the Department to answer the following questions:

Why is the aerostat in Arizona being cut by the rescission?

Is there a problem with the proposed location?

Is there a belief that the level of drug trafficking in the area does not warrant the aerostat?

Does the Department believe there is a better location for the aerostat?

SECRETARY BAKER: As you are aware, the Administration is seriously addressing the challenging problem of deficit financed budgets and the growing national debt. The proposed rescission only removes congressioal add-ons and will not interrupt or impact current operational capability.

Several unresolved problems exist regarding the proposed Arizona aerostat. Foremost, without cooperation from the Government of Mexico, smugglers detected by the radar can simply airdrop their loads and return to Mexico. Secondly, using an aerostat radar in mountainous terrain has never been attempted before. We have considerable technical concerns regarding clutter and shadowing that will only be clarified when the radar becomes operational. Weather alone could keep the aerostat from functioning properly. We also must be sensitive to environmental issues. The Army is performing an environmental assessment to determine if any negative effects will result to either the human or animal populations in the surrounding area.

The level of drug trafficking in the area reflects the illicit narcotic problem facing this nation; it must be addressed with multi-faceted effort. A single aerostat would be ineffective as drug smugglers could easily avoid the covered area. Furthermore, the aerostat cannot be rapidly deployed when and where needed, and it is not responsive to the flexible threat posed by smugglers. We do not believe that there is any better single location.

MR. COLEMAN: Mr. Secretary, the Department proposes cuts in the Customs Service which it estimates will result in a reduction of 770 personnel in FY 1987. What is the rationale for these cuts in personnel?

SECRETARY BAKER: In support of the Administration's goal of reducing the Federal budget deficit, the Customs Service is exercising fiscal restraint by requesting only a nominal $11 million increase in FY 1987. Customs will be implementing management initiatives which will generate net savings of over $21 million and 770 FTE. These initiatives include automation enhancements for Automated Commercial System (ACS) and Treasury Enforcement Communication System (TECS) II; streamlining port operations to obtain the most efficient use of resources; and selective hiring policies to insure adequate staffing for critical priorities. These savings will be used to offset uncontrollable increases such as increased charges passed to Customs from other agencies for services, within grade pay increases, and increased costs of operation. Although it would be nice to think that reductions of this magnitude could be taken without impacting on personnel, the truth is the bulk of the Salaries and Expenses budget is related to personnel costs and benefits. Therefore, the bulk of the reductions (about 70 percent) will be offset through FTE. These initiatives by the Customs Service should have minimal impact on service to the public and upon operational and enforcement capabilities. Wherever possible, the cutbacks will be imposed so that revenue collections, passenger, vehicle, and cargo processing are not significantly affected. On the enforcement side, Customs air, marine, and investigative programs are to remain fully staffed.

MR. COLEMAN: How many reductions in force will come about as a result of this cut?

SECRETARY BAKER: It is anticipated that there will be no reduction-in-force (RIF) actions as a result of the personnel reductions. The reductions will come from three major actions:

(1) productivity savings due to ACS automation;

(2) streamlining port operations utilizing reduced service hours at ports during non-peak hours, scheduling single shifts at selected airports, eliminating some part-time inspectors at seaports; and,

(3) a selective hiring policy throughout FY 1987.

Attrition will be used to the maximum extent to reduce positions; however a minimal number of reassignments may be necessary and, to the extent possible, will be made with the least inconvenience to Customs Service employees.

MR. COLEMAN: What areas of the nation will be affected by the reduction of 770 personnel in the Customs Service? Specifically, how will the regions be affected?

SECRETARY BAKER: The majority of the Customs Services planned management actions are contingent upon turnover in personnel, critical impact of vacancies, and ability to staff within the same geographical area. It is therefore not possible at this time to specifically identify the extent to which the regions and districts will be affected by those types of losses. The losses associated with the reduction of hours of service during non-peak hours would occur along the Canadian border

MR. COLEMAN: Mr. Secretary, in your testimony, you stated that the Department and Customs were attempting to determine the best allocation of resources to combat the illegal entry of narcotics. I am interested in a detailed explanation of the Department's position as it applies to both the Salaries and Expenses account and the Air Operations and Maintenance account.

a. Where does the Department find deficiencies in the present allocation of resources?

b. Where does the Department believe our resources should be allocated?

c. Does the Vice-President's task force agree with the Department's conclusions?

d. Does the Justice Department concur?

SECRETARY BAKER: The Department believes the Customs Service Air Interdication Program has not proven to be as cost effective as anticipated. Therefore, the proposed FY 1987 budget for the Customs Air Program has redirected resources from interdiction to investigative and intelligence programs.

At this time, there is still considerable discussion within the Administration concerning the most effective methods and strategies to combat illegal narcotics activities. However, it was an Administration decision to maintain the Customs Service Air Program at its present level and to concentrate the resources on the most successful elements of the program.

MR. COLEMAN: Do you believe the use of aerostats along the southwest border to be an efficient allocation of resources? If not, how would you propose to monitor the area in lieu of the aerostat?

SECRETARY BAKER: We do not believe that a fixed radar system is as efficient or effective as an airborne, look down, 360° radar platform. The smuggling threat has proven to be very mobile and responsive to enforcement action and our ability to remain flexible and reactive is very important.

MR. COLEMAN: With respect to the proposed $19.275 million rescission for the Air Operations and Maintenance account, how many reductions-in-force would occur?

SECRETARY BAKER: Since the Air Operations and Maintenance (O&M) account does not include funding for personnel, the proposed $19.275 million rescission will not result in any reduction-in-force. In fact, the proposed rescission for the Salaries and Expense account will not negatively impact the current authorized staffing levels in either FY 1986 or FY 1987.

MR. COLEMAN: Please give a detailed explanation of the proposed $4.1 million rescission for the Salaries and Expenses account of Customs?

SECRETARY BAKER: In support of the Administration's deficit reduction initiative the following reductions would occur as a result of the proposed rescission of $4.169 million to the FY 1986 Salaries and Expenses budget:

Activity	Reduction (million)
- Non-operational funds designated for equipment and other OCDE/EXODUS activities	1.5
- Marine enhancements	1.3
- Joint Canadian port construction	0.8
- Purchase of information/purchase of evidence	0.6

UNION OIL CONTRACT

Q: Considering the uncertainty surrounding the legitimacy of the Union Project and considering the Treasury Department's fiduciary responsibility to administer "legal projects," has the Department initiated its own legal opinion regarding the action taken by the Board in January?

A: The Treasury Department has begun a comprehensive legal review of the actions taken by the Board of Directors of the Synthetic Fuels Corporation to approve the Union Oil Loan Guarantee Agreement.

Q: Will the Treasury Department execute the Union Oil contract if your legal counsel determines that the contract violates the terms of the Continuing Resolution and therefore is not legally binding?

A: At this time, Treasury is unable to predict what actions may be deemed appropriate since the legal review noted in the previous question has not been completed. Once that review is completed, Treasury will determine what action it will take. Any such action, of course, will be lawful.

Q: Would you consider challenging, in court, the actions of the Board to approve the project?

A: Under the terms of the Energy Security Act, (42 U.S.C. §8767), only the Attorney General and the Comptroller General are authorized to bring suit against the Corporation for violations of law.

QUESTIONS FOR THE RECORD

CUSTOMS DRUG ENFORCEMENT

MR. ROYBAL: Mr. Secretary, do you consider the Customs Service a lead agency in the federal drug law enforcement effort?

The FY 87 budget identifies the "enforcement of drug laws" as a high priority program, and the budget proposes increases for several agencies: $48 million for DEA, $9 million for the FBI and $34 million for the Coast Guard. Yet, the budget also proposes a significant cutback for the Customs Services, an agency identified as crucial to the success of our drug interdiction effort.

Why did the Treasury Department get short-changed in this administration build-up to enforce drug laws?

Does this budget recommend adequate resources for Customs to meet the demands placed on this agency?

SECRETARY BAKER: As one of the lead agencies in the federal drug law enforcement effort, the Customs Service remains committed in the fight against drug smuggling. While the Treasury budget submission reflects the Administration's overall efforts to reduce the budget deficit, the Customs budget proposal provides sufficient resources to fulfill Customs mission. Over the past several years Customs has implemented new initiatives and numerous programs to handle increasing workloads in a more efficient and cost effective manner.

In developing the FY 1987 Customs budget submission some difficult decisions were required to deal with the projected impact of Gramm-Rudman and other reductions. However, we do not believe that our final decisions will, at any time, jeopardize the operational and enforcement capabilities of Customs field units. In fact, the enforcement efforts of the Customs air, marine and investigative programs will remain fully staffed and the funding level for investigative casework will be maintained.

MR. ROYBAL: Mr. Secretary, last year the Committee established a level of 14,041 positions, an increase of over 1400 positions above the Administration's budget request. Gramm-Rudman reduced those positions by 777. What impact has that reduction had on your operations in 1986?

SECRETARY BAKER: The impact of the Gramm-Rudman reduction in FY 1986 will have minimal effect on Customs Service operations. The improvements Customs has implemented over the past several years in automated systems and selectivity will sufficiently increase productivity, reduce the need for manual processing and, thereby maintain efficient workload processing. In addition, we do not anticipate any significant impact on enforcement effectiveness although caseloads and other enforcement actions will have to be increased per officer and some support functions will be reduced.

MR. ROYBAL: In 1987 you are requesting that the Customs Service continue the reduction of 777 positions and have even increased that reduction by 770 positions for a total of 1,547 in 1987. Customs is projecting the processing of 295 million people arriving from foreign countries in 1987, an increase of 5 million people in 1987. How can you process 5 million more people with a reduction of over 1,500 employees? Won't that result in either increased delays or in less careful review of people entering the country?

SECRETARY BAKER: Customs has made tremendous strides in improving effectiveness through expanded utilization of automated systems, selectivity systems, and other innovative techniques. Efforts to improve enforcement of pertinent laws and regulations and expedite the processing of persons and goods will continue in FY 1987. Enforcement efforts will be enhanced through utilizing increasingly selective and automated inspectional techniques which enable Customs inspectors to concentrate their efforts on "high-risk" passengers and cargo while allowing the predominantly law-abiding transactions to receive minimal attention. These inspectional techniques allow for the rapid processing of the bulk of travelers and more efficient detection of suspected violators.

In addition, Customs policy in implementing these staffing reductions is to minimize any impact upon the operational and enforcement capabilities of Customs field operations. Wherever possible, the cutbacks are being imposed so that passenger and vehicle processing will not be significantly affected.

In other words, Customs expects only minimal, if any, delays or loss of enforcement as a result of these staffing reductions.

MR. ROYBAL: Importers are bringing more and more merchandise into the country. In commerce, expeditious handling is critically important because delays can cost many millions of dollars. Don't you think that cutting back on Customs positions is penny wise and pound foolish because the cost of delays will far exceed the cost of funding additional personnel for Customs?

SECRETARY BAKER: If Customs remained static while workload increased, we could not keep up with it and, yes, we would be penny wise and pound foolish. However, Customs is moving forward in its use of technology and selectivity to keep well ahead of workload. We are pushing forward with consolidation, automation, and streamlining all applicable operations. The Automated Commercial System (ACS) is on-line with 1,666 terminals and has a typical daily volume of 260,000 transactions. This represents an increase of more than 100 percent in both terminals and transactions since 1984 and further expansion is anticipated. When fully developed and implemented, the system will provide improved management information, more efficient resource use, and increased responsiveness to the business community. In addition, ACS will permit Customs to implement on a selected basis a periodic entry procedure. This procedure will reduce the number of entries required to be submitted by major importers. Bi-monthly entry summaries would be submitted that would enter all releases occurring since the last previous submission. The system will require less paperwork and permit faster release of merchandise.

MR. ROYBAL: One of the most critical problems facing our country today is that of illegal narcotics. The cost in law enforcement, is staggering. The cost to our economy in stolen property to support drug habits is staggering. But the most terrible cost of all is that paid by the young people of this country in wasted lives. Do you honestly believe that the few million dollars we save in cutting back Customs is worth the terrible social cost we pay?

SECRETARY BAKER: I would agree that one of the most serious problems facing our country is that of illegal narcotics. Therein, it is an understandable temptation to suggest: spend what it takes to eliminate the problem. Unfortunately, we, as a society, do not have sufficient available resources to do so. Our fiscal deficit has become its own form of addiction, and it, like other addictions, has the potential to threaten our society's health.

Given severe fiscal constraints and considerable uncertainty as to optimal resource allocation strategies for addressing the drug problem, we have decided essentially to stabilize the investment in Customs drug interdiction -- increasing the current deterrent capacity only marginally, while continuing to examine competing alternatives for incremental investment.

We all want to see the tragedy of drug abuse eliminated -- I do believe that what we are recommending is, in the current context, a prudent approach.

MR. ROYBAL: The President's Commission on Organized Crime urged the President to order the military into fight against an "airborne, amphibious and overland invasion" of the United States by drug smugglers. The budget for 1987 for the Customs Service requests a reduction of over 1,500 positions. How can you come before this Committee justifying a reduction when the Commission (and just about everyone else knowledgeable about the drug problem) is urging a tremendous increase in personnel to solve this terrible problem?

SECRETARY BAKER: The FY 1987 budget submission for Customs recommends a reduction of 770 positions over the proposed FY 1986 budget. Wherever possible, these reductions will not significantly impact Customs enforcement efforts. In fact, Customs air, marine and investigative programs will remain fully staffed and investigative casework will continue to be funded at its previous level.

Within the Federal government over 20 agencies cooperate in Federal drug law enforcement. The Administration considers improvements to the Federal drug law enforcement program one of its top domestic priorities. In FY 1987 the Administration proposes to maintain current level funding for most drug enforcement programs as well as increases in selected, high priority areas. The proposed reduction in the Customs Service air interdiction program will continue to maintain the program at its FY 1985 level while redirecting scarce resources to the elements most crucial to the success of the program -- investigations and intelligence.

The increases devoted to overall drug law enforcement have begun to produce results, but the problems caused by illicit drug trafficking are pervasive and continuing. The Administration, through the budget proposal for the FY 1987 Federal drug law enforcement program, continues its strong commitment in the fight against illegal narcotics activity and believes that significant results will be achieved as a consequence.

Question submitted for the Record by Mr. Roybal for the hearing on Treasury's FY-87 Budget - From Secretary Baker's hearing on March 6, 1986

Mr. Roybal: Mr. Secretary, the Director of ATF has stated that the Administration supports S. 49, the Firearms Owners' Protection Act. Other Administration officials have testified that S. 49 is flawed. What is the position of the Administration on S. 49?

Mr. Baker: A Department witness testified recently in House Judiciary Committee hearings in support of the legislation. Unfortunately, some confusion may have developed from the circulation of the ATF-Treasury internal memo drafted to show "worst case scenarios" and to explore certain police group concern. This has been misrepresented by some as the Treasury position, fortunately, that is not the case. As the witness stated, this Administration supports enactment for S. 49 and H.R. 945.

The Administration sees this bill as maintaining a balance between the needs of law enforcement and the rights of citizens who also happen to be law abiding gun owners. When enacted, this bill will aid law enforcement by replacing some ambiguous and unnecessary provisions of the 1968 Gun Control Act, while strengthening others.

Largely overlooked by detractors of S. 49 and H.R. 945 are provisions which would make it unlawful for anyone to sell a gun to a felon, extend gun law penalties to drug traffickers, provide mandatory jail sentences for criminal misuse of a firearm, authorize gun traces by statute, and define who needs a firearms license, among numerous other provisions strengthening firearms enforcement. It is our belief that rank and file police officers as well as gun owners support the provisions of S. 49 and H.R. 945.

We are confident that those who evaluate the bill on its merits will see its benefits to law enforcement and gun owners alike.

TREASURY BILL VETO

MR. CONTE:

Mr. Secretary, what was your role in the President's veto of H.R. 3036, the Treasury Appropriation Bill?

I had many conversations with OMB on this bill, and I didn't get anywhere. Do you think the Office of Management and Budget realizes the impact of these cuts to revenue producing agencies?

If they understand, why does the FY 1987 budget reflect a substantial decrease for the Customs Service, an agency that collects about $15 billion in revenues each year?

MR. BAKER:

The Department supported enactment, however, the Administration objected to certain language provisions including the implementation of OPM's performance-based regulations; OMB review of USDA Marketing Service Orders; and GSA contracting out of functions that can be performed more efficiently by the private sector. The bill also provided $289 million more in budget authority than assumed in the Congressional budget resolution for annually funded discretionary programs.

With regard to the revenue impact of budget reductions in the Customs Service, it is very difficult to address the precise relationship between resources and revenues, and no methodology currently exists. The bulk of the revenue - $12.9 billion of $15.1 billion to be collected in FY 1987 - is collected as duties on imported merchandise. Overall compliance is high, around 95%; and most of the revenue is collected through voluntary self-reporting without the need for extensive Customs action. Therefore, any impact on revenues is expected to be minimal.

Congresswoman Boggs

Question: Secretary Baker, the press reports possible changes in the Administration's position on the question of an oil import fee. What is your personal opinion of imposing some sort of import fee at a time of low petroleum prices and don't you think that it makes more sense to utilize the proceeds from such a fee to reduce the budget deficit rather than to maintain revenue neutrality in the pending tax bill?

Answer: There are both advantages and disadvantages in imposing an oil import fee in order to maintain a revenue neutral tax bill. The imposition of an oil import fee would tend to reduce the nation's dependence on foreign oil, but this must be balanced against the more difficult competitive position in which our energy-intensive industries would be placed. These and other factors must be considered before determining the merit of imposing an oil import fee as part of a revenue-neutral tax reform package. However, it is clear that only in this context would the fee merely substitute for revenues that would otherwise be collected though an income tax, rather than add to the total tax burden. This is the only context in which I believe an oil import fee should be considered.

Congressman Conte

Question: Would you comment on your views as to the relative merits of a gas tax versus an oil import fee?

Answer: Both an oil import fee and a tax on motor fuels might be considered within the context of obtaining a revenue-neutral tax reform bill. At this point, neither should be entirely dismissed from consideration if needed to obtain a revenue neutral tax bill, but neither should be considered in any other context.

MR. CONTE: In February of last year, the President's Budget recommended $3.5 billion for the Internal Revenue Service, and two months after approving the final Continuing Resolution, a $340 million supplemental was requested. In fact, in your prepared testimony, you characterized this request as "critical" to the proper operation of the IRS. I'm interested to know when this crisis became evident.

When in 1985 did the IRS inform the Treasury Department that the funds recommended in the President's Budget were insufficient for proper operations?

What day did the IRS submit the first supplemental request to the Treasury Department for consideration? Why didn't the Administration propose a supplemental then or at least a budget amendment?

I'm concerned because the President vetoed the Treasury bill last November based on a $180 million overrun. And then, just two months later, the Administration proposed a $340 million supplemental. It seems to me that someone has to explain how a "crisis" situation in IRS funding developed since passage of the C.R. -- a crisis that was not evident when the Congress approved funding for the IRS. We wouldn't be in this delicate position if the President asked for this money in December, would we?

SECRETARY BAKER: The budget request submitted by IRS to the Department (July 16, 1985) for FY 1987 was based on the FY 1986 President's Budget. The request included proposals to fund the Service at the level considered necessary for tax processing and tax enforcement. At that time, no revisions were made to the FY 1986 request.

On August 28, 1985, the IRS submitted a supplemental to the Department for FY 1986 to cover deficiencies in operations. On September 13, 1985, the supplemental request was approved by the Department for submission to the Office of Management and Budget. That request represented the results of a careful review of the funding necessary to restore the tax administration system

to the level required to meet tax processing and enforcement responsibilities.

As of December, the Administration had not yet completed its review of Treasury's budget request. However, the Administration had recognized the need for additional resources in the Internal Revenue Service.

MR. CONTE: Mr. Secretary, what was your role in the President's veto of H.R. 3036, the Treasury Appropriations Bill? I had many conversations with OMB on this bill, and I didn't get anywhere. Do you think the Office of Management and Budget realizes the impact of these cuts to revenue producing agencies?

If they understand, why does the FY 1987 budget reflect a substantial decrease for the Customs Service, an agency that collects about $15 billion in revenues each year?

SECRETARY BAKER: On October 18, 1985, OMB sent a letter to the Appropriation Committee objecting to the total Treasury, Postal Service and General Government Appropriation bill, including mention of the higher amount in the House bill for the IRS. This was prior to OMB's review of the supplemental request for Fiscal Year 1986.

However, after that review, OMB was persuaded of the need for additional funding in the IRS and supported Mr. Rogers in his letter to the Conferees on October 29, 1985, endorsing the higher level for IRS. The President's veto message of November 18, 1985, on the Treasury, Postal Service and General Government bill made no mention of the IRS amount.

OMB has approved a deficiency apportionment for $273 million of the $340 million supplemental, and sent letters to both the House and Senate appropriations committees urging approval of the full $340 million to support critical tax processing operations and and 1986 revenue collections.

Support for revenue collection activities throughout the Department is an important part of our FY 1987 budget request, and, for the Customs Service, the resources requested will result in an 8 percent increase in receipts, $1.1 billion above the amount estimated to be collected in FY 1987.

MR. CONTE: Just a few months after the President's Budget was submitted to Congress, the IRS determined that a supplemental would be necessary. How can this Committee accept the claim that the proposed FY 1987 IRS budget is adequate to meet the demands placed on the agency?

To avoid a repeat of the veto last year, will the Administration propose a budget amendment or supplemental before the final bill is enacted if IRS funding is inadequate for FY 1987?

SECRETARY BAKER: The FY 1987 budget request assumes the continuation of initiatives begun in FY 1986 to strengthen tax administration and focuses in particular on enhancement of the Service's revenue producing and compliance activities. A major effort has been made to ensure that the resources requested are adequate to meet tax processing responsibilities and improve the Service's ability to collect taxes due the U.S. Government but not paid. We feel that these objectives are met in the current request for the Internal Revenue Service.

REPRESENTATIVE CONTE: My home state of Massachusetts had tremendous success two years ago with a tax amnesty.

During the amnesty period, almost 130,000 taxpayers contacted the Massachusetts Department of Revenue --- 30,000 on the last day alone. When all was said and done, the state recovered $67 million --- even though the state anticipated recovering at the absolute maximum only $20 million.

Last year, I asked you this question, and you responded that "The Treasury Department has no position on the issue of Federal tax amnesty."

In light of the tremendous success of the Massachusetts and New York amnesty programs, is the Administration open to Federal tax amnesty? What would you see as the advantages of such a program?

SECRETARY BAKER: The President has not ruled out an amnesty as a means of collecting unpaid taxes from past years. The Treasury Department continues to study all issues raised by an amnesty, including anticipated revenue, and to monitor state results. The Treasury Department has long had reservations concerning the actual and perceived fairness of a Federal taxpayer amnesty program. This is in part a revenue consideration given the possibility that amnesty could have an adverse impact on taxpayer morale and thus voluntary compliance.

April 4, 1986

REPRESENTATIVE CONTE: One concern over a Federal amnesty is that it would reduce compliance after the amnesty period, because taxpayers would assume that Congress would, in time, enact another amnesty.

But that didn't happen in Massachusetts. In fact, Massachusetts estimates that 25 per cent of the $665 million increase in fiscal year 1984 revenue to the state is attributable to increased voluntary compliance. It would appear that the amnesty encouraged previously delinquent taxpayers to come forward, and stay on the rolls.

Don't you think the experience of the Federal level would be the same? Wouldn't it bring more taxpayers on the rolls and increase compliance and revenue over time?

SECRETARY BAKER: The successful state amnesty programs have included not only an offer of amnesty but also additional provisions designed to improve compliance. When detailed state data relating to the revenue effects of the state compliance packages become available, it will be necessary to separate the compliance effect of the amnesty from the effects of improved state enforcement activities. Massachusetts is a particularly dramatic example of a state in which the offer of amnesty was accompanied by a number of provisions designed to improve compliance, including significant funding increases (50 percent over a two year period), a tax check as a condition to entitlement to a state license or business from the state, publicity designed to promote compliance, and higher penalties, including new criminal penalties. Significant revenue improvement in years

following enactment of the amnesty package would have been expected from the change in compliance policy alone.

Irrespective of amnesty, tougher compliance measures should be adopted to improve enforcement of our tax laws. Additional revenue agents should be hired to ensure that taxes owed are paid.

April 4, 1986

REPRESENTATIVE CONTE: In questions for the record last year, I asked the Treasury Department for some basic information regarding the implementation of a federal amnesty program. The response from the IRS was straight forward, but unsatisfactory. Commissioner Egger wrote that "We have no estimate as to how much revenue a Federal tax amnesty would raise, nor do we have estimates of costs. We have not considered how such a program would be administered, or what it would cost."

Considering the interest in and success of state amnesty programs, don't you think such information would be valuable in dealing with this issue legislatively? Will you direct that such a study be conducted?

SECRETARY BAKER: The Treasury Department is studying all issues raised by an amnesty. We are not in a position at this time to provide detailed revenue or cost estimates or specific recommendations.

April 4, 1986

Congressman Conte

Question: Over the past month or so, newspaper reports have described several different Administration positions on the issue of an oil import fee. Today's Washington Post reports that "Reagan lifts support for oil-import fee." To me, that's good news, but I'm not sure it's accurate.

Does the Administration have a position on an oil import fee?

As Secretary of the Treasury, what is your position on an oil import fee?

Has the Department conducted any studies on the regional impacts of consumers?

Answer: The President had indicated that an oil import fee might be considered in the context of achieving a revenue-neutral tax reform proposal. The Treasury Department has conducted some limited studies on the regional and distributional impact of an oil import fee, and these have been included as part of the testimony presented on February 27 of this year by Acting Assistant Secretary J. Roger Mentz before the Subcommittee on Energy and Agricultural Taxation of the Committee on Finance of the United States Senate.

Lowell Dworin
4/4/86
XAA 566-3489

TUESDAY, FEBRUARY 25, 1986.

SAVINGS BONDS DIVISION

WITNESSES

KATHERINE D. ORTEGA, TREASURER OF THE UNITED STATES AND NATIONAL DIRECTOR, U.S. SAVINGS BONDS DIVISION
EDWARD J. GUSS, DEPUTY EXECUTIVE DIRECTOR
WILLIAM FALLS, DIRECTOR, PLANNING AND PRODUCT DEVELOPMENT
JAMES GIANFAGNA, DIRECTOR, PUBLIC COMMUNICATIONS
REBECCA D. BROWN, FINANCIAL MANAGEMENT OFFICER
WILLIAM M. GREGG, COMMISSIONER OF THE PUBLIC DEBT
JILL E. KENT, DEPUTY ASSISTANT SECRETARY FOR DEPARTMENTAL FINANCE AND PLANNING

Mr. ROYBAL. Now the Committee will hear the United States Savings Bonds Division.

Ms. Ortega, I would like to welcome you and your colleagues to the Committee this morning, and ask you to proceed in any manner that you may desire.

OPENING REMARKS

Ms. ORTEGA. Mr. Chairman and members of the Committee, I am pleased to be here today to present the fiscal year 1987 budget request for the United States Savings Bonds Division.

The U.S. Savings Bonds Division has the important mission of increasing the sale and retention of savings bonds. Savings bonds are particularly important now because they are the most cost-effective way the Treasury has to finance the public debt. The more than $5 billion Series EE Bonds sold last year saved the Treasury an estimated $300 million in fiscal year 1985 by replacing more costly market borrowing.

In House Joint Resolution 436 passed last December, the Congress stressed savings bonds contribution to Federal cost reduction and reduced foreign ownership of the debt. It also pledged constituents' information efforts and a payroll savings campaign for the Congressional staff.

SAVINGS BONDS SALES

The Division has reexamined its sales promotion strategies and now places increased emphasis on the fast growing markets for over-the-counter purchase of savings bonds. A new ad agency and news media program has been extremely effective.

Through these efforts, we have increased over-the-counter sales 87 percent during the first four months of fiscal year 1986 com-

pared to the already high level of early 1985. Total sales so far this year are up 42 percent over last year's.

The improved marketing program contributed to the fiscal year 1985 dollar sales of $5.03 billion, 29 percent higher than the fiscal year 1984 level, and the highest since 1979.

FY 1987 APPROPRIATION REQUEST

For fiscal year 1987, the Division is requesting 273 FTE positions and $18,158,000. This request is an increase of $1,670,000 from the authorized level of fiscal year 1986 with no increase in FTE positions. This increase consists of $500,000 to develop and distribute new market-targeted consumer and news media information materials; $741,000 to maintain fiscal year 1986 program levels; and $569,000 to maintain current levels, offset by decreases of $140,000.

SUMMARY

During fiscal year 1987, the Division will devote most of its resources to increasing public awareness to build both over-the-counter and payroll savings sales. Advertising will continue to emphasize the financial benefits of savings bonds.

Mr. Chairman and members of the Committee, this concludes my statement. We will be happy to answer any questions that the Chairman or the Committee might have.

[The prepared statement of Ms. Ortega follows:]

DEPARTMENT OF THE TREASURY
U. S. SAVINGS BONDS DIVISION

Introductory Statement of Katherine D. Ortega
Treasurer of the United States and
National Director, U. S. Savings Bonds Division

For Presentation to the Subcommittee on Appropriations

Mr. Chairman and members of the Committee, I am pleased to be here today to present the fiscal year 1987 budget request for the United States Savings Bonds Division.

The U. S. Savings Bonds Division has the important mission of increasing the sale and retention of Savings Bonds. The Division provides a safe and effective savings program for millions of Americans; broadens public ownership of the national debt; and reduces the cost of debt financing.

Since its inception, the Savings Bonds Program has demonstrated its value to the government and the public. From 1941 to 1985, the public has purchased over $237 billion worth of Savings Bonds at issue price. For many wage earners it has been the primary method of saving, and for the government it has been a stable source of financing the public debt. Over 80 billion dollars of Savings Bonds are now held by the American public.

Savings Bonds are particularly important now, because they are the most cost effective way the Treasury has to finance the public debt. A recent Treasury study estimated that bonds are about a percentage point less costly than marketable debt of the same maturity. This translates into interest cost savings of $300 million in fiscal year 1985 based on the $5.4 billion sold last year.

The Savings Bonds Program is unique because part of its success is due to volunteer support. Active national and local volunteer committees perform vital and outstanding services to the Division in the fields of banking, media, labor and industry. The efforts of the field personnel are multiplied through the directed activities of our volunteers.

The Division commissioned independent research in 1985 to help it conduct operations more efficiently and identify markets with the greatest potential for cost-effective growth. As a result, the Division changed its sales promotion strategies and public service advertising program in 1985 and continues to adapt, placing increased emphasis on the fast-growing market for over-the-counter purchase of Savings Bonds.

More publications and broadcast stations increased their use of the public service advertising created by the agency during the 1985 campaign season. These advertising materials played a major role in increasing public awareness of the Savings Bonds Program. Highly favorable news coverage has also been obtained through staff and volunteer efforts.

Through these efforts we have increased over-the-counter sales 87 percent during the first four months of fiscal 1986, compared to the already high level of early 1985. Payroll savings sales have grown as well, and total sales so far this year are up 42 percent over last year's. This growth has been accompanied by an increase in the average price of each bond sold, making Public Debt operations more cost-effective.

The improved marketing program contributed to the fiscal year 1985 dollar sales of $5.03 billion which were 29% higher than the fiscal year 1984 level and the highest since fiscal year 1979.

For the first time in the Program's 45-year history, the over-the-counter market accounted for more than 50 percent of dollar sales.

For fiscal year 1987, the Division is requesting 273 FTE positions and $18,158,000. This request is an increase of $1,670,000 from the authorized level of FY 1986 with no increase in FTE positions. This increase consists of $500,000 to develop and distribute new market-targeted consumer and news media information materials; $741,000 to maintain FY 1986 program levels; $569,000 to maintain current levels; offset by decreases of $140,000.

During fiscal 1987, the Division will devote most of its resources to increase public awareness to build both over-the-counter and payroll savings sales. Efforts will be concentrated on those accounts which offer the greatest sales potential in order to make the most cost effective use of existing staff and volunteer resources.

Mr. Chairman and members of the Committee, this concludes my statement. We will be happy to answer any questions that you or members of the committee may have.

BALANCE BETWEEN SALES AND REDEMPTIONS

Mr. ROYBAL. Thank you, Ms. Ortega.

Now, what is the current balance between savings bonds sales and redemptions?

Ms. ORTEGA. Well, for the first time in many years the sales are certainly much higher than they have been, and redemptions have decreased substantially.

Our sales were in excess of five billion dallars last year.

Mr. GUSS. The redemptions were approximately that amount as well. For about four months, we had a positive cash flow for the first time in about the last decade. Sales were increasing so strong, and redemptions were decreasing as well. I think it was from June, July, August, in that period.

The overall redemptions are down 6 percent for the fiscal year.

INTEREST RATES AND REDEMPTIONS

Mr. ROYBAL. Was that due to the fact that they did not redeem as many bonds or was it due to interest rates? What was the reason for that?

Mr. GUSS. Yes, sir. Two things.

One, because of the interest rates. Since 1982, we have become a very competitive consumer saving instrument. Because of the five-year holding period that is required to get the variable rate, people are holding on to the bonds longer. The average length that people hold bonds today is eight years. And because of the fact that our rates are so competitive now, I am sure that number is going to increase over the next few years.

All Series E Bonds that are outstanding are now currently earning a market-based rate interest just like all new purchased EE Bonds. Beginning in 1987, people who have bonds for many years before 1982 when we went to the market-based rate will be getting the benefits of the market-based rate.

All those factors are contributing to people holding the bonds longer. And when people hold bonds longer, it becomes more cost-effective to the Treasury.

MARKET-BASED RATE

Mr. ROYBAL. Now, what is the market-based rate that you are talking about?

Mr. GUSS. The market-based rate today, sir, is 8.36 percent.

Ms. ORTEGA. That rate, Mr. Chairman, changes every six months.

Mr. GUSS. Since 1982 in November when it went into effect, we have averaged 9.69 percent.

Mr. SKEEN. Mr. Chairman, it is a variable rate now program that you have.

Mr. GUSS. Yes, sir.

Mr. SKEEN. And you compute it every six months?

Mr. GUSS. Yes, sir. Every May and every November.

Mr. SKEEN. What has been its average since the market rate began?

Mr. GUSS. It has been 9.69 percent.

Mr. SKEEN. 9.69.

Mr. GUSS. Yes, sir.
Mr. SKEEN. That's a competitive rate.

PROMOTIONAL ACTIVITIES

Mr. ROYBAL. Now you do conduct a promotional campaign of some kind. I have seen evidence of that throughout the country. The fact that people do buy these bonds, is that mostly due to your promotional campaign, or is it due to a change in interest rates, or is it both?

Ms. ORTEGA. Well, we feel it is a combination of both. Certainly the market-based rate demonstrates the fact that they are competitive, and the fact that we have had many, many very favorable articles in the Wall Street Journal, Forbes Magazine and publications such as that, and we have seen more activity by major corporations supporting the bond program.

Mr. ROYBAL. Is the support of the bond program by corporations due to promotion?

Mr. GUSS. Yes, sir.
Mr. ROYBAL. I am sure.
Ms. ORTEGA. Yes.

SAVINGS BONDS COST-EFFECTIVENESS

Mr. ROYBAL. I think your promotion has been effective. No doubt, you should increase that effort, bringing more money into the Treasury.

How do you measure the productivity of your employees and how do you know that the cost of operating the Savings Bonds Division returns dividend to the government that exceeds these costs?

Mr. GUSS. Last year, sir, we conducted some research to get a definitive answer to that question.

We had some outside contracting help, and then the Treasury Department did some research itself. What we have found is that for every billion dollars in savings bonds that we sell, we make a profit, if you will, of $54 million per billion sold. That takes into account everything. That is administrative costs, the cost of the Parkersburg operation, and the very large cost which is tax deferral on interest earned because of the way our bond is structured.

We do not pay State and local tax, of course, but Federal taxes are deferred.

All that taken into account, we still are profitable at $54 million per billion sold. So that means last year we sold over $5 billion worth of bonds. That is up a billion from the year before. We saved approximately $300 million in interest costs on the debt.

FEDERAL TAXES AND INTEREST EARNED

Mr. ROYBAL. What about the investor? How does he make his money?

He buys at a fixed dollar amount. Under the variable rate, it could increase, but it could also decrease. Supposing it did increase and he made a profit. Does the investor pay Federal taxes as well as State taxes?

Ms. ORTEGA. Well, you purchase a bond for 50 percent of its face value. A $50 bond will cost you $25. You must hold it at least five years in order to earn this higher market based rate. You make the election the first year that you buy the bond whether you want to report that interest each year and pay the taxes, or whether you want to wait until you redeem the bond. In either case, you will pay taxes, Federal income taxes on the entire amount of interest that you have earned, whether it is 7½ percent or whether it in fact averages out to 10 percent.

Mr. ROYBAL. But it can be done on an annual basis or it can be done at the——

Ms. ORTEGA. At the end when you cash it, yes.

Mr. GUSS. Yes, sir, if I may.

These are the two ways you can defer your Federal tax. If you own IRA fund bonds, most likely the best deal for you is to defer the tax because the interest on the interest then accumulates to you. Uncle Sam does not take it year to year. And the actual yield then at the end of five years, let us say, is a point or two higher than you would get if you had a CD with a comparable rate. It depends on your tax bracket.

If you are in a 50 percent tax bracket, and live in a state with the 6 percent tax, the spread can be as much as 4 percent difference. So you have to find an instrument that will pay you—we are paying 8 now, you can find something that is paying close to 12.

Mr. ROYBAL. Sure. Actually very competitive.

OVER-THE-COUNTER SALE

Mr. GUSS. Oh, very competitive. That is why over-the-counter sales this year have exceeded payroll savings sales for the first time in the history of the program, 45 years. And we ran out of $10,000 bonds at the bank last year. Now, we have increased that level and brought it up to the markets demanding it.

But we are competitive and it is starting to show.

PROGRAM INCREASE

Mr. ROYBAL. What is the additional $550,000 requested for program enhancement? What does that mean?

Mr. GUSS. That means that we want to increase the publicity about savings bonds.

Mr. ROYBAL. All right.

Mr. GUSS. We have found—I should have gone to the question you had earlier—that when people know about bonds, they will buy them.

When we started the program in '82, a year later, the Gallup Poll surveyed it. And that showed that approximately 7 percent of the people in this country knew that savings bonds had changed.

Further research showed us that the over-the-counter market has a lot greater potential than the payroll savings market.

Back in the sixties and seventies, we used to have 50 percent of the payroll savings market because there were no 401-K programs, the thrift programs were not as prevalent as they are today, the company matching programs, stock options, et cetera.

Now, today, we have 18 percent of that. That is a healthy market share. But we have a lot of competition in that area, and the estimate of the amount of money in payroll savings is from $12 to $15 billion.

On a corollary to that though, the over-the-counter market has $100 billion potentially, and we have currently 2 percent of that. And we are growing in that market very rapidly.

The reason for the program enhancement is that we have to get the word to the public. Once the public understands that we are competitive, like you and I understand because we have had a nice discourse this morning and you have gotten some personal information about it, sales would be expected to increase further. We need to increase the intensity of our advertising efforts.

PUBLICITY OF BONDS

Mr. ROYBAL. You do have a free hand in promoting the sale of bonds, do you not?

Mr. GUSS. Yes, sir.

Mr. ROYBAL. In other words, you can agree on a specific program, and then you are able to execute it without any strings attached?

Ms. ORTEGA. We work directly with an advertising agent in the development of the PSAs that might appear in our print material that we will be issuing.

Mr. SKEEN. You do give PSA service?

Ms. ORTEGA. Yes, we do. The President did a PSA spot for us.

Mr. ROYBAL. All right, Mr. Skeen.

SUCCESS OF PROGRAM

Mr. SKEEN. Thank you, Mr. Chairman, and I am delighted to see you again, Katherine. This is a lady who is also a constituent and a good friend.

But I am amazed at the success of the program, and I want to compliment you both and all of you because it is a very successful one.

I was very interested in the statement that you made about the savings and interest on the national debt. The more you promote this system, and the more successful it is, the better the interest picture insofar as the national debt is concerned. It runs about $150 billion.

Mr. GUSS. $179 billion.

Mr. SKEEN. $179 billion. Excuse me. I was a day behind. [Laughter].

$179 billion. And you have had a very extensive advertising program, but I have to tell you that there is still a lot to be done in the same year.

You are asking for $500,000?

Mr. GUSS. $500,000.

Ms. ORTEGA. $500,000.

Mr. SKEEN. And I think that is going to be an easy program to sell if we can say some of the things that you said today. The yield is high.

I think you have a good program. I would like to see a few more of them.

Thank you, Mr. Chairman.

Mr. ROYBAL. Thank you.

I think we will be able to sell that increase because we understand it. Once you understand the reasons for an increase I think you can present arguments to the House to convince 51 percent of them that those arguments are adequate justification.

However under Gramm-Rudman, we do not know what is going to happen. Everything is up in the air at the moment. Nonetheless, we will look at this thing very carefully and the Committee will make its recommendations.

I would like to thank you, Ms. Ortega, and your colleagues for your presentation this morning. Thank you very much.

Ms. ORTEGA. Thank you, Mr. Chairman.

[Questions for the record, the answers thereto and the justifications follow:]

Mr. Wolf: What U.S. Employer is the largest forum for Savings Bonds sales?

Ms. Ortega: The Department of Defense (DOD), with approximately 3.1 million employees and 587,000 payroll savers, is the largest payroll savings market.

The largest numbers of payroll savings participants outside government are at AT&T, with 171,000 savers, and General Motors, with 161,000.

Mr. Wolf: What percent of all bonds are purchased by federal, state, or local government employees?

Ms. Ortega: The total dollar sales volume percentages in FY 1986 were as follows:

Federal payroll savings	10%
Non-Federal payroll savings*	36%
Total payroll savings	46%
Over-the-counter	54%
Total sales	100%

* Includes approximately 1% state and local government - exact amount unavailable.

Mr. Wolf: Do you find, from you brochures' advertisement, that public employees are attracted to buy bonds because of the three year basis recovery rule (tax grace period upon retirement for recovery of mandatory personal contributions to their pension plans)?

Ms. Ortega: Yes, federal employees are attracted by the ability to redeem Savings Bonds and report tax-deferred interest during a period when their taxable income is lower. Private-sector Savings Bonds purchasers enjoy a similar tax advantage when they retire and collect tax-free Social Security benefits.

Mr. Wolf: Under the House-passed Tax Reform Act, this tax-free grace period for recovery of contributions would be eliminated. do you believe this poses a threat to the bonds sales to public employees and/or bonds programs at various levels of government?

Ms. Ortega: No. Savings Bonds provide savers with an excellent combination of market-based return, safety, and other benefits which made them an attractive means of savings for retirement even without the tax-free period.

Mr. Wolf: What financial impact would you estimate elimination of this recovery period would have on the Savings Bonds program??

Ms. Ortega: We are unable to estimate the impact, but believe it to be minimal.

Mr. Wolf: At the Savings Bonds Division, have you noticed an increase in retirements since this issue surfaced? Do you anticipate additional retirements of individuals trying to avoid this tax penalty? If so, will this affect your mission? How so?

Ms. Ortega: There has not been an increase in retirements. Inquiries received by the personnel office may indicate that a few employees mar retire if the change appears near enactment. This, however, will not have an effect on the Division's mission.

THE DEPARTMENT OF THE TREASURY

Administering the Public Debt, U. S. Savings Bonds Division

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1986
(Dollars in Thousands)

	Permanent Positions	Average Positions	Amounts
FY 1986 Appropriation (Continuing Resolution) Enacted by Congress	302	273	17,229
Adjustment:			
Reductions Under P.L. 99-177	---	---	-741
Proposed Authorized Level for FY 1986	302	273	16,488
Estimate FY 1987	302	273	18,158

NOTE: The amount in the U. S. Savings Bonds Division's justifications are included in the submission Administering the Public Debt, Bureau of the Public Debt.

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1987

	APPROPRIATION						Increase or Decrease (-) for 1987					
	FY 1985		FY 1986		FY 1987		Total Changes		Program Changes		Other Changes	
	Av. Pos.	Amount	Av. Pos.	Amount	Av. Pos.	Amount	Av. Pos.	Amount	Av. Pos.	Amount	Av. Pos.	Amount
1. Executive Direction and Administration	33	2,836	33	2,467	33	2,713	---	246	---	---	---	246
2. Sales	217	12,312	219	11,745	219	12,311	---	566	---	---	---	566
3. Public Communications	11	1,539	12	1,551	12	2,389	---	838	---	500	---	338
4. Planning and Product Development	9	1,017	9	725	9	745	---	20	---	---	---	20
Unobligated Balance		29										
Total appropriation, authorized level and budget estimate	270	17,733	273	16,488	273	18,158	---	1,670	---	500	---	1,170
Permanent Positions Established	(305)		(302)		(302)		(---)		(---)		(---)	

U. S. Savings Bonds Division

Impact of
FY 1986 Gramm-Rudman-Hollings Budget Reduction

- **Description of impact on bureau programs:**

  Major program reductions include $476,000 for printing and distribution of promotional and advertising materials used by employers, financial institutions, etc.; $110,000 for planned ADP equipment; and $155,000 for the savings bonds film used in payroll savings campaigns.

- **Effect on workload:**

  The Division has determined that the Gramm-Rudman-Hollings budget reduction can be achieved in the most cost-effective manner if staff cuts are avoided. Therefore, there should be only a small increase in workload because some planned efficiencies due to automation will not be realized.

- **Effect on services:**

  -- Reduce current informational and educational materials that are printed and distributed to employers and financial institutions from the estimated 65 million pieces to 40 million pieces.
  -- Eliminate printing one flight of print media advertising completely and reduce distribution of remaining two flights. A flight of print media advertising includes radio and TV ads, outdoor and transit posters, and newspaper and magazine ads. The cutback in printing of advertising flights will reduce the current 8,500 daily and weekly newspapers which now receive savings bonds public-service advertisements to 3,500, and reduce consumer and trade magazines receiving ads from the current 3,500 to 1,100.
  -- Delay or cancel one third of the 10,000 FY 1987 planned campaigns in major accounts as a result of the reduced supply of printed promotional materials.

- **Effect on ability to fulfill agency mission:**

  -- Decrease in private sector voluntary support for the savings bonds program due to the delays and cancellations of FY 1987 savings bonds campaigns.
  -- Reduce 1986 sales of savings bonds by an estimated $150 million due to a loss of approximately 6% of of payroll savings sales originally anticipated.

U. S. SAVINGS BONDS DIVISION

EXECUTIVE SUMMARY

FISCAL YEAR 1986

The budget approved for the U. S. Savings Bonds Division under the Continuing Resolution enacted by Congress provided funds for 273 FTE positions and $17,229,000 in budget authority.

PROPOSED ADJUSTMENTS:

1. Reductions Under P.L. 99-177:

A reduction proposal of $741,000 is included to implement the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177) which called for sequestration of 4.3% of FY 1986 budget authority approved by Congress under the Continuing Resolution.

To achieve this reduction the Division will reduce the printing and distribution of advertising and promotional materials; eliminate the employee benefits film; and curtail purchase of ADP equipment.

The proposed authorized level for FY 1986 with the above reductions is 273 FTE positions and $16,488,000 in budget authority.

FISCAL YEAR 1987

The budget proposed for the Division in FY 1987 provides for 273 FTE positions and budget authority of $18,158,000. This is an increase of $1,670,000 from the level authorized for FY 1986.

The $1,670,000 increase includes $500,000 for program enhancements; $741,000 to maintain FY 1986 program levels reduced by P. L. 99-177; and $569,000 to maintain current levels; offset by $140,000 in reductions and savings.

With an overall budget allowance of 273 FTE positions and $18,158,000 the Division will:

- increase public awareness through innovative advertising and news media materials to build over-the-counter sales while continuing to promote the payroll savings plan;
- increase calls on banks and other financial institutions to train bank personnel and request consumer information support;
- contact more than 51,000 employers, financial institutions, labor organizations, volunteers, government agencies, and the media;
- work toward a goal of increasing savings bonds sales to $6.0 billion by increasing public awareness and developing new markets, while containing costs by directing staff and volunteer efforts to the most productive areas. A $6.0 billion sales level would reduce the cost of government borrowing by an estimated $324 million.

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987
(Dollars in thousands)

	Activity 1			Activity 2			Activity 3			Activity 4			Total		
	Pos.	AP	Amount	Pos.	AP	Amount	Pos.	AP	Amount	Pos.	AP	Amount	Pos.	AP	Amount
Program Changes:															
1. Consumer and Media Information	--	--	--	--	--	--	--	--	500	--	--	--	--	--	500
Total, Program Changes	--	--	--	--	--	--	--	--	500	--	--	--	--	--	500
Other Changes:															
1. Maintaining FY 1986 program levels	--	--	96	--	--	440	--	--	205	--	--	--	--	--	741
Increases necessary to maintain current levels:															
1. Net cost of within grade increases required by statute	--	--	15	--	--	67	--	--	6	--	--	8	--	--	96
2. Increased costs for travel and transportation	--	--	8	--	--	34	--	--	3	--	--	4	--	--	49
3. Increased costs of communications and FTS	--	--	4	--	--	17	--	--	1	--	--	2	--	--	24
4. Increased printing costs	--	--	8	--	--	63	--	--	15	--	--	--	--	--	86
5. Support services and facilities	--	--	110	--	--	44	--	--	110	--	--	7	--	--	271
6. Increased costs for the Working Capitol Fund	--	--	3	--	--	3	--	--	--	--	--	--	--	--	6
7. Increased health benefits and hospitalization insurance costs	--	--	6	--	--	26	--	--	2	--	--	3	--	--	37
Subtotal, Maintaining Current Levels	--	--	154	--	--	254	--	--	137	--	--	24	--	--	569
Subtotal, Other Increases	--	--	250	--	--	694	--	--	342	--	--	24	--	--	1,310

Administering the Public Debt, U. S. Savings Bonds Division

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987
(Dollars in thousands)

	Activity 1			Activity 2			Activity 3			Activity 4			Total		
	Pos.	AP	Amount	Pos.	AP	Amount	Pos.	AP	Amount	Pos.	AP	Amount	Pos	AP	Amount
Reductions, non-recurring costs and savings:															
1. Reductions	--	--	-2	--	--	-14	--	--	-2	--	--	-2	--	--	-20
2. Non-recurring costs	--	--	-2	--	--	-114	--	--	-2	--	--	-2	--	--	-120
Subtotal, Reductions, and Other Savings	--	--	-4	--	--	-128	--	--	-4	--	--	-4	--	--	-140
Total, Other Changes	--	--	246	--	--	566	--	--	338	--	--	20	--	--	1,170
Total, Increases or Decreases 1987 compared with 1986 appropriation and Proposed Authorized Level	--	--	246	--	--	566	--	--	838	--	--	20	--	--	1,670

Administering the Public Debt, U. S. Savings Bonds Division

SUMMARY JUSTIFICATION OF FY 1987 BUDGET ESTIMATES

General Statement

The mission of the U. S. Savings Bonds Division is to increase the sale and retention of savings bonds. In accomplishing this mission, the Division broadens public ownership of the national debt, increases personal savings, and reduces the cost of debt financing.

The Savings Bonds program creates a partnership of direct participation of American business, labor, banking, media, and community groups while providing the opportunity for all citizens to voluntarily participate in the financing of their government.

To implement the promotional program in FY 1987, the Division is requesting 273 FTE positions and $18,158,000 -- an increase of $1,670,000 from the authorized level of FY 1986 with no increase in FTE positions. This request includes $500,000 for program enhancement, $741,000 to maintain FY 1986 program levels, $569,000 for increases necessary to maintain current levels, offset by $140,000 reduction costs in equipment, office space, and employee compensation benefits.

A program increase of $500,000 is requested to develop and distribute new market-targeted consumer and news media information materials. These materials are vital to the Division's success in increasing sale and retention of savings bonds and reducing the cost of debt financing.

Accomplishments:

Fiscal year 1985 dollar sales were $5.03 billion, 29% above the 1984 level and the highest since 1979. Redemptions declined by six percent, to $5.68 billion. The value of bonds outstanding was $78.24 billion for FY 1985.

The Division changed its strategies and public service advertising program in 1985. More publications and broadcast stations used the new ad materials during the 1985 campaign season than at any other time in recent history. One example of its success was the estimated $11 million of donated space in magazines alone.

In April 1985 the Division launched its toll-free Consumer Information Service. To date, over 100,000 callers have received information about savings bonds.

A national Campaign Leadership Conference for U. S. Savings Bonds was held for the first time in January 1985. Almost 400 company campaign leaders, representing 272 major employers were trained to conduct more effective payroll savings promotions.

Projections:

During fiscal year 1987 the Division will devote most of its resources to increase public awareness to build both over-the-counter and Payroll Savings Plan sales.

A goal of 51,950 initial promotional contacts and $6.0 billion in dollar sales has been set for fiscal year 1987.

A planned restructuring of the U. S. Savings Bonds Volunteer Committee will increase its effectiveness in promoting savings bonds sales.

The national advertising program will emphasize the features and benefits of savings bonds, continuing the strategy begun in 1985.

The Division's budget consists of the following sub-program activities:

1. Executive Direction and Administration

The Executive Direction and Administration activity includes the following:

-- the Executive Director and Deputy Executive Director;
-- the Administration Branch which includes the offices of Human Resources, Financial Management, and Support Services;
-- the Internal Review and Analysis Staff; and
-- the Program Control Staff.

This activity provides the overall management of the U. S. Savings Bonds Division; establishes policies; directs the development and execution of a national marketing program; and provides leadership and direction to the paid staff and the volunteers identified with the program.

2. Sales Operations:

The Sales Operations activity is responsible for coordinating the development and execution of promotional activities to stimulate the sale of savings bonds through the Payroll Savings Plan and over-the-counter.

The Sales Operations activity includes a director, three territory directors, eighteen districts, and the National Volunteer Programs. The field offices are responsible for contacting employers, financial institutions, and the media to promote the sale of savings bonds. The National Volunteer Programs is responsible for the coordination of volunteer activities.

3. Public Communications:

The Public Communications activity plans, develops, and executes national advertising and news media programs by:

-- working with the advertising agency and the national media;

-- developing promotional materials to support all Division and volunteer activities; and

-- administering the Division's Public Information Program.

The Public Communications activity includes the Office of Public Affairs and the Office of Advertising.

4. Planning and Product Development

The Planning and Product Development activity develops the Division's short-term and long-term sales marketing plans and strategies; researches consumer attitudes, potential markets, and the competitive environment; develops the Division's response to marketing opportunities and competitive changes; conducts the Division's automation programs; and studies ways of increasing the program's effectiveness in reducing the cost of Federal borrowing.

SELECTED WORKLOAD DATA
(Number of Promotional Contacts) *

Activity and Principal Workload Factors	1985 Actual	1986 Program in 1986 Budget	1986 Program in 1987 Estimate	1987 Estimate	Percent of Change 1986
Promotion of the sale of Savings Bonds					
Promotional Contacts:					
Payroll Savings Contacts	26,756	32,000	29,000	27,500	- 5.2
Financial Institutions	10,219	10,500	12,000	13,000	+ 8.3
Labor Organizations	482	600	500	600	+20.0
Print Media	3,269	3,850	3,800	4,100	+ 7.9
Broadcast Media	3,133	3,600	3,700	4,000	+ 8.1
Volunteers	1,114	1,400	1,200	1,400	+16.6
Organizations & Other	1,294	1,350	1,300	1,350	+ 3.8
Total Promotional Contacts	46,267	53,300	51,500	51,950	+ 0.8

* All figures are initial calls and do not reflect any follow-up calls

Administering the Public Debt, U. S. Savings Bonds Division

SUMMARY OF EMPLOYMENT
(Number of Average Positions)

Principal Categories	Actual	Estimated		Increases (Decreases) for 1987		
	1985	1986	1987	Total	Program	Other
Managerial and administrative direction..	7	7	7	--	--	--
Managerial and administrative support....	20	20	20	--	--	--
Accounting technicians and other.....	14	14	14	--	--	--
Sales promotional.....	160	165	165	--	--	--
Mail and files.....	2	2	2	--	--	--
General clerical.....	55	55	55	--	--	--
Subtotal	258	263	263	--	--	--
Part-time and temporary average positions	12	10	10			
Total average positions	270	273	273	--	--	--

Administering the Public Debt, U. S. Savings Bonds Division

DETAIL OF PERMANENT POSITIONS

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Senior Executive Service	2	2	2
Subtotal	2	2	2
GS/GM - 15	6	6	6
GS/GM - 14	23	23	23
GS/GM - 13	31	30	30
GS - 12	130	129	129
GS - 11	1	1	1
GS - 10	1	1	1
GS - 09	3	3	3
GS - 08	3	3	3
GS - 07	25	24	24
GS - 06	19	19	19
GS - 05	20	20	20
GS - 04	35	35	35
GS - 03	6	6	6
GS - 02	0	0	0
Subtotal	305	302	302
Ungraded	0	0	0
Total permanent positions	305	302	302
Unfilled positions, end of year	52	26	26
Total permanent employment, end of year	253	276	276

Administering the Public Debt, U. S. Savings Bonds Division

AVERAGE GRADES AND SALARIES

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Average ES salary	68,700	68,700	68,700
Average GS grade	10.04	9.87	9.87
Average GS salary	32,233	32,490	32,750

THE DEPARTMENT OF THE TREASURY

Administering the Public Debt, U. S. Savings Bonds Division

CONSULTING AND RELATED SERVICES

In FY 1985, the Division contracted with Booz Allen and Hamilton, Inc. to conduct a cost benefit analysis of the savings bonds program. The purpose was to study the costs and benefits of the program, its impact on the Federal budget and of proposed changes to the program in terms of their impacts on Treasury policy objectives. The study also evaluated program enhancements and the merits of specific types of debt instruments by incorporating a comparison of savings bonds to other Federal debt instruments.

The Division's responsibility for marketing savings bonds requires a continual effort to introduce product and program improvements that will augment the annual sales volume and increase the total program benefit. This contract provided a framework for analyzing the relative costs and benefits of introducing new products, changes in marketing, and other services of the savings bonds program.

The study concluded that the greatest potential for savings bonds sales growth is in the over-the-counter market. As a result, the Division has increased its public awareness efforts to build over-the-counter sales while continuing to promote the payroll savings plans.

Administering the Public Debt, U. S. Savings Bonds Division

CONSULTING AND RELATED SERVICES
(in thousands of dollars)

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Consulting Services	--	--	--
Management and Professional Services	--	--	--
Special Studies and Analyses	91	--	--
Management and Support Services for Research and Development	--	--	--
Total Consulting and Related Services	91	--	--

Administering the Public Debt, U.S. Savings Bonds Division

FY 1985 DOLLAR SALES AND ESTIMATED SALES FOR FY 1986 AND FY 1987

Activity and Principal Workload Factors	1985 Actual		1986 Program in 1986 Budget	1986 Program in 1987 Estimate	1987 Estimate	Percent of Change Over 1986
Promotion of the sale of Savings Bonds:						
Dollar Sales:						
Series EE - $50. - $200.	2,730,000	*	2,959,000	3,384,000	3,650,000	+ 7.9
$500. and over	2,295,000		1,814,000	2,166,000	2,380,000	+10.0
Total EE	5,025,000		4,773,000	5,550,000	6,030,000	+ 8.7
Series HH	4,000	**	---	---	---	---
Grand Total	5,029,000		4,773,000	5,550,000	6,030,000	+ 8.7

* Includes minor amounts of Series E Bond adjustments.

** Cash sales of Series HH bonds were permitted from January 1980 through October 1982. Since October 31, 1982 Series HH bonds have been issued only in exchange for Series E or EE bonds. Cash sales reported thereafter are adjustments.

SALE OF U. S. SAVINGS TYPE SECURITIES
FISCAL YEARS 1941-1985
(in millions of dollars)
-at issue price-

Fiscal Year	Series E	Series EE	Series H	Series HH	Freedom Shares	Grand Total
1941 - 1951	61,969					61,969
1952 - 1961	38,056		6,999			45,055
1962 - 1971	42,649		3,926		862	47,437
1972	5,650		289			5,939
1973	6,190		322			6,512
1974	6,145		282			6,427
1975	6,503		324			6,827
1976	8,737		390			9,127
1977	7,576		319			7,895
1978	7,775		251			8,026
1979	7,061		234			7,295
1980	2,949	1,736	25	109		4,819
1981	0	3,303	0	52		3,355
1982	0	3,062	0	50		3,112
1983	0	3,952	0	48		4,000
1984	7	3,889	0	-6		3,889
1985	4	5,021	0	5		5,030
Total	201,236	20,929	13,360	257	862	236,647

Series E bonds were sold from May 1, 1941 through June 30, 1980, sales reported thereafter are adjustments. Series H bonds were sold from June 1952 through December 31, 1979. Series HH bonds were sold from January 2, 1980, through October 31, 1982; sales reported thereafter are adjustments. From January 1960 through October 1969, H bond sales included minor amounts of exchanges of Series F and J bonds and Freedom Shares; however, they excluded exchanges of Series E bonds. Freedom Shares were sold from May 1, 1967 through June 30, 1970. Series EE and HH bonds were first offered for sale on January 1, 1980. Due to rounding figures may not add to totals.

EXPLANATION OF FISCAL YEAR 1987 BUDGET INCREASES AND DECREASES

PROGRAM CHANGES	**$ 500,000**
1. **Consumer and Media Information**	500,000

Provide resources to produce and distribute a variety of consumer and media information, such as, a series of 3-5 minute Informercials, target market advertising materials, and a teller training videotape. All of this information is designed to increase public awareness, increase the number of bonds sold, and involve and generate greater support from national opinion-leaders.

OTHER CHANGES

Total Other Changes	**$1,170,000**
Maintaining FY 1986 Program Levels	**$ 741,000**

The Division is requesting $741,000 to maintain the FY 1986 program levels that were reduced by P.L. 99-177.

Increases Necessary to Maintain Current Levels	$ 569,000
1. Net cost of within-grade salary increases	96,000

Based on a projection of all employees on the rolls as of January 1986, with consideration given to retirements, promotions, and savings based on turnover experience, it is estimated that $96,000 will be required for within-grade salary increases and related benefits.

2. Increased Travel and Transportation Costs	49,000

This request is based on the 4.2% inflation increase projected for air fares and other modes of transportation for employees; and the increase in freight and other shipping costs.

3. Increased FTS and Other Communication Costs	24,000

This request covers the anticipated inflationary increases for FTS as well as the surcharges levied by the local telephone companies.

4. Increased Printing Costs	86,000

This amount represents an increase of 7% in GPO and commercial printing charges resulting from increasing labor, paper, supply and commercial procurement costs.

5. Support Services and Facilities	271,000

This request provides normal annual inflationary increases of 4.2% for support services and facilities consisting of equipment rental and purchases, postage, supplies, and services of other government agencies. Also included is the anticipated increases in contractual services of private contractors for the production, distribution, and warehousing of the advertising and promotional materials.

6. Working Capital Fund 6,000

This increase is required to cover the anticipated 4.2% inflation increase for the additional cost of printing, reproduction, and telecommunication services provided for the Division.

7. Increased Health Benefits and Medicare Costs 37,000

An additional $37,000 is needed to fund projected increases anticipated for contributions to the employees' health benefits plans and the medicare and FICA taxes.

Reductions, Non-recurring Costs and Savings ..... $ 140,000

1. Reductions 20,000

The Division expects to realize a reduction of $20,000 in fiscal year 1987 from the repricing of GSA space rates.

2. Non-recurring Costs 120,000

These savings consist of one time non-recurring costs of $100,000 for ADP equipment and a $20,000 reduction in reimbursements made to the employees compensation fund.

ADMINISTERING THE PUBLIC DEBT
U. S. SAVINGS BONDS DIVISION

STANDARD CLASSIFICATION SCHEDULE
(Direct obligations only)

	Appropriation 1985	Authorized Level 1986	Appropriation 1987	1987 Increase or Decrease over 1986
Total number of permanent positions	305	302	302	---
Average paid employment	270	273	273	---
Object Classification				
Personnel Compensation:				
Permanent Positions	8,446,951	8,550,000	8,636,000	86,000
Positions Other Than Permanent	163,263	210,000	213,000	3,000
Other Personnel Compensation	134,871	130,000	131,000	1,000
Total Personnel Compensation	8,745,085	8,890,000	8,980,000	90,000
Personnel Benefits	1,247,563	1,280,000	1,303,000	23,000
Benefits for Former Persons	23,285	30,000	30,000	0
Travel and Transportation of Persons	771,688	783,000	816,000	33,000
Transportation of Things	466,421	410,000	426,000	16,000
Rent, Communications and Utilities	1,262,586	1,032,000	1,086,000	54,000
Standard Level User Charges	926,045	928,000	908,000	-20,000
Printing and Reproduction	1,263,721	880,000	1,536,000	656,000
Other Services	2,435,131	1,978,000	2,879,000	901,000
Supplies and Materials	111,919	112,000	116,000	4,000
Equipment	448,757	165,000	78,000	-87,000
Insurance Claims	2,010	---	---	---
Total Obligations	17,704,211	16,488,000	18,158,000	1,670,000
Unobligated Balance	28,789	---	---	---
Total Appropriation, Authorized Level, and Budget Estimate	17,733,000	16,488,000	18,158,000	1,670,000

TUESDAY, MARCH 4, 1986.

U.S. SECRET SERVICE

SALARIES AND EXPENSES

WITNESSES

FRANCIS A. KEATING II, ASSISTANT SECRETARY, ENFORCEMENT AND OPERATIONS

JILL E. KENT, DEPUTY ASSISTANT SECRETARY, DEPARTMENTAL FINANCE AND PLANNING

JOHN R. SIMPSON, DIRECTOR

DAVID C. LEE, ASSISTANT DIRECTOR, ADMINISTRATION

STEPHEN E. GARMON, ASSISTANT DIRECTOR, PROTECTIVE OPERATIONS

JOSEPH R. CARLON, ASSISTANT DIRECTOR, PROTECTIVE RESEARCH

KEVIN R. HOULIHAN, ASSISTANT DIRECTOR, INVESTIGATIONS

FRANK PALMER, CHIEF, FINANCIAL MANAGEMENT DIVISION

Mr. ROYBAL. The committee is in session today to hear from the U.S. Secret Service with regard to their 1987 budgetary requests.

Mr. Simpson, you may proceed in any way you might desire.

Mr. SIMPSON. Mr. Chairman, with your permission, I think Secretary Keating would like to make an opening statement, then again, with your permission, I would like to make a short introductory statement and a long one to be given for the record, with your permission.

Mr. ROYBAL. Without objection.

Mr. KEATING. Mr. Chairman, on behalf of the Department of the Treasury it is my pleasure to accompany the U.S. Secret Service and present to you their budget request for Fiscal Year 1987.

I have a prepared statement. I would like to submit the statement for the record at this time.

Mr. ROYBAL. Without objection, it will appear in the record at this point.

[The statement of Mr. Keating follows:]

Department of the Treasury

United States Secret Service

Introductory Statement of

The Honorable Francis A. Keating

Assistant Secretary (Enforcement and Operations)

For Presentation to the Subcommittee on Appropriations

Mr. Chairman and Members of the Committee:

It is a pleasure for me to appear before you in support of the annual appropriation request for the United States Secret Service. Appearing with me today are the Director of the Secret Service, John R. Simpson, key Secret Service staff members, and Jill E. Kent, Deputy Assistant Secretary for Departmental Finance and Planning.

The budget request for fiscal year 1987 is 307,140,000 dollars. These funds are needed to carry out the vital missions of the U.S. Secret Service, which include protection of the President, Vice President, and foreign heads of state. As you know, Mr. Chairman, the U.S. Secret Service also has a critical investigative mission in protecting the currency against counterfeiting and in investigating credit card fraud, computer fraud, and the theft and forgery of govern- ment obligations. The Secret Service has carried out these

missions with determination and enthusiasm. In the short time I have been here, I have been most impressed with their professionalism and their dedication to duty.

Protection continues to be the Secret Service's highest priority. During fiscal year 1985, the Secret Service expended more man-hours in protection than in any past non-campaign year. The man-hours devoted to the protective mission represented 58 percent of the total for fiscal year 1985. Just as fiscal year 1985 included the close of the Presidential campaign and the Presidential Inauguration, fiscal year 1986 started off with a major special event, the United Nation's 40th General Assembly, for which the Secret Service planned and carried out a challenging protective function. During the period of late September 1985 to October 30, 1985, over 100 heads of state visited New York City for this event. From all reports, the Secret Service did an outstanding job and are to be commended for this fine effort.

As we look to the future, we see that these special events are becoming more numerous. In July of fiscal year 1986, the Statute of Liberty Celebration will take place, no doubt attended by many foreign VIP's. During fiscal year 1987, the Pan American Games will be held in Indianapolis. In the spring of fiscal year 1987, Pope John Paul II is scheduled to visit our country. Events such as these pose

enormous challenges for the Secret Service, especially in view of the threat of terrorism. Careful and detailed planning, meticulous training and preparation, and continued support and cooperation from local, state and other Federal law enforcement agencies are essential in meeting these protective challenges.

Even though field agents were devoting much of their time to protection activities, they were still able to perform their criminal enforcement missions effectively. In fiscal year 1985, both arrests [1,738] and convictions [1,591] for counterfeiting exceeded the levels of fiscal year 1984. Counterfeit notes seized before being passed to the public totalled 61.7 million dollars. Efforts to suppress counterfeiting overseas have been expanded with the establishment of the Milan, Italy field office. The Secret Service is exploring the possibility of establishing additional foreign field offices.

As our society moves from financial transactions conducted primarily with paper checks and currency, to electronic, computer-based systems, the Secret Service's workload in combatting fraud involving computers, credit cards, and electronic funds transfer will continue to grow. The Secret Service is adapting its programs to meet these challenges as our financial system continues to evolve.

Mr. Chairman, this concludes my opening statement. I will now ask Mr. John Simpson, The Director of the U.S. Secret Service, to provide you with his prepared statement, and we will then be pleased to respond to questions you or other members of the committee may have.

INTRODUCTORY STATEMENT

Mr. KEATING. Then at this time, I will yield to Mr. Simpson for his formal presentation.

Mr. SIMPSON. A short and a long statement will be submitted for the record.

Mr. Chairman, I am pleased to appear before you and the other members of the committee to present the annual appropriation request of the United States Secret Service and to report on our activities during the current and past fiscal years.

INTRODUCTION OF ASSOCIATES

With me today, Mr. Chairman, is David C. Lee, Assistant Director for Administration; Stephen E. Garmon, Assistant Director for Protective Operations; Joseph R. Carlon, Assistant Director for Protective Research; Kevin R. Houlihan, Assistant Director for Investigations; and Frank Palmer, Chief of our Financial Management Division.

APPROPRIATION REQUEST

The pending appropriation request for Fiscal Year 1987 totals $307,140,000, an increase of $13,140,000 when compared with the enacted level for Fiscal Year 1986 of $294,000,000. This net increase reflects program increases of $16,537,000, maintaining current level cost increases of $4,845,000, a reduction of $4,582,000 to the equipment account, and a $3,660,000 decrease in counterterrorism funds.

The Service's Fiscal Year 1986 budget is $281,358,000 following mandated Gramm-Rudman-Hollings' sequestration.

CONTINUED INCREASE IN ACTIVITIES

The past year has shown a continuing increase in the activities of the Secret Service. During fiscal year 1985, we provided security to permanent protectees traveling extensively throughout the United States and abroad, and to foreign leaders visiting the United States. Fiscal Year 1985 can be appropriately described as a year of global unrest impacting U.S. citizens and potentially threatening U.S. officials; thus placing greater demands on the Secret Service than ever before. Therefore, unprecedented protective measures required in Fiscal Years 1985 and 1986 will have to be continued and expanded in Fiscal Year 1987 for our permanent protectees, visiting foreign dignitaries and foreign missions.

Mounting investigative responsibilities have also placed greater demands on the Secret Service. Credit and debit card fraud investigations have increased by 1100 percent from Fiscal Year 1984 to 1985.

Increasingly sophisticated methods of counterfeiting credit cards and accessing account numbers will require even more investigative resources in Fiscal Year 1987. The Secret Service similarly does not anticipate declines in traditional areas of investigation such as counterfeiting, check and bond forgery, and protective research cases.

PROTECTIVE EFFORT

As in the past, protective responsibilities in Fiscal Year 1985 entailed numerous travel days, manhours, and a consummate effort from the Service's entire protective force. Protective manhours worked in Fiscal Year 1985 proved to be the highest ever for a non-campaign year.

With the close of the 1984 Presidential campaign, our protective effort continued with the planning of the Presidential inauguration. Adding to our overall protective program was the enormous responsibility associated with planning and executing protection for the United Nation's 40th General Assembly.

Special agents from all over the country were called upon to cope with the breadth of this event. During the period of late September 1985 to October 30, 1985, over 100 heads of state or government visited New York City for this event. During the week of October 20th, 57 Secret Service protectees were in New York.

The challenges associated with this event were made even greater with the additional security measures necessary to deter possible terrorist actions against such a large gathering of world leaders. We were greatly aided in supplying the necessary security forces by personnel from other Treasury bureaus, federal law enforcement agencies, and state and local governments. I would like to commend these men and women for their outstanding support.

UNIFORMED DIVISION

The U.S. Secret Service Uniformed Division is mandated to protect the Executive Mansion and grounds, the New Executive Office Building, diplomatic missions located in the Washington metropolitan area, and occasionally missions located outside this area. Uniformed Division protection is also integrated with that for the President, the Vice President and his residence and members of their immediate families.

Uniformed Division responsibilities will expand in the near future with the addition of new magnetometer posts at the White House complex. The use of the magnetometer details has proven to be an effective means of detecting weapons carried in the vicinity of a protectee.

FIELD OFFICES

Special Agent personnel from the Secret Service's field offices spent a large portion of their duty hours supporting protective functions in Fiscal Year 1985. In 1985, 58 percent of all Special Agent manhours were devoted to protection, with field office personnel contributing substantially to this effort. Much of this work involved conducting advance surveys for visiting protectees and providing physical protection for incoming permanent and temporary protectee details.

In addition to the heavy reliance upon the Service's investigative personnel for protective reinforcement, substantial hours were spent in protective related investigations. Cases closed totaled 13,426 in Fiscal Year 1985, with 709 arrests, 606 convictions and 254 cases pending for court action. Despite the heavy commitment

of investigative manpower to protection, the personnel in our field offices maintained a high level of criminal enforcement during Fiscal Year 1985.

OVERALL INVESTIGATIVE CASELOAD

Overall, the Secret Service's investigative caseload continues to increase. Investigations received in 1985 totaled 208,642, an increase of 2,421 over the previous year. Estimates of cases to be received in Fiscal Year 1986 exceed our FY 85 statistics by nine percent. A strong increase is expected in Fiscal Year 1987. The Secret Service closed 198,922 investigations in Fiscal Year 1985, an approximate increase of 10,000 cases over Fiscal Year 1984.

ACCESS DEVICE FRAUD INVESTIGATIONS

The Secret Service's new responsibilities involving credit/debit card fraud required a significant reallocation of investigative resources during Fiscal Year 1985. The Secret Service has recently seen a tremendous increase in fraudulent telemarketing operations which have accounted for the loss of millions of consumer dollars. All indications point to a continuation of this trend.

EQUAL EMPLOYMENT OPPORTUNITY

The Service has continued to pursue a vigorous program for the recruitment of qualified minority employees, as well as a program to prepare minority clerical employees for advancement into administrative and technical positions. As you know, the Service has a special need for minorities in the ranks of our special agents and uniformed officers. Accordingly, we have conducted significant recruitment efforts for these categories of personnel so that we can compete with private industry for qualified minorities. A record number of minority applicants were hired as special agents in Fiscal Year 1985. Approximately 29.9 percent of all special agents hired were from a minority group.

SUMMARY

In summary, Mr. Chairman, Fiscal Year 1985 was a successful but demanding year for the Secret Service in which our greatest concern was upgrading security measures to cope with the increasing terrorist aggression surrounding us. The safety of our protectees must always be the Service's first priority, and it requires an increasingly higher level of effort and resources. As a result, more manpower was expended in protective activities in Fiscal Year 1985 and our technical capabilities reached new levels of sophistication.

Budgeted resources are carefully apportioned to law enforcement programs and positions while maintaining an extremely lean support staff. In that respect, Fiscal Year 1985 can be looked upon as a transition year, one which should set a precedent for meeting future protective demands.

I am grateful for this committee's understanding and support for the Secret Service in the past. I would also like to acknowledge the supreme efforts of our Secret Service employees who possess the in-

dividual pride and concern that produces an outstanding team effort. This same intense, dedicated effort from our agency will continue into the future.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions you or the other members of the committee may have.

[The statement of Mr. Simpson follows:]

DEPARTMENT OF THE TREASURY

U. S. SECRET SERVICE

Introductory Statement of John R. Simpson

Director, U. S. Secret Service

For Presentation to the Subcommittees on Appropriation

Mr. Chairman, I am pleased to appear before you and the other members of this Committee to present the annual appropriation request of the United States Secret Service and to report on our activities during the current and past fiscal years.

Introduction of Associates

With me today, Mr. Chairman, is the Deputy Director, Mr. Larry B. Sheafe, Mr. David C. Lee, Assistant Director for Administration, Mr. Stephen E. Garmon, Assistant Director for Protective Operations, Mr. Joseph R. Carlon, Assistant Director for Protective Research, Mr. Kevin R. Houlihan, Assistant Director for Investigations, and Mr. Frank Palmer, Chief of our Financial Management Division. Since this is the first appearance before this committee of Messrs. Lee and Houlihan, with your permission I would like to insert a short biographical sketch of each for the record.

Retirement of Former Deputy Director William R. Barton

As you are aware, former Deputy Director William R. Barton recently retired after 32 years of distinguished service with the

David C. Lee

David C. Lee was appointed Assistant Director of the Office of Administration on February 16, 1986. Prior to this appointment, he held the position of Deputy Assistant Director of the Office of Administration.

Mr. Lee was born July 19, 1941, in Boston, Massachusetts. He received a bachelor of arts degree in economics from Boston College in 1963. Mr. Lee served in the United States Army Reserve from 1964 to 1966.

David Lee was appointed a special agent at the Boston Field Office in 1965. Since his appointment, Mr. Lee has gained extensive experience in investigative and protective work while assigned to various field offices and protective divisions. Mr. Lee was promoted to Assistant to the Special Agent in Charge of the Dignitary Protective Division in 1978. While assigned to the Dignitary Protective Division, he served as Deputy Inspector in Charge and Acting Inspector in Charge of the Candidate Nominee Protective Division from September 1979 to November 1980. In 1981, Mr. Lee left the Dignitary Protective Division to serve as an inspector in the Office of Inspection. He was promoted to Assistant Special Agent in Charge of the Washington Field Office less than a year later.

In 1984, Mr. Lee was appointed Special Assistant in the Office of the Director. He was promoted to Deputy Assistant Director of the Office of Administration in 1985, where he remained until receiving his current appointment.

David Lee is a participating member of the International Association of Chiefs of Police and is on the Board of Directors at the Center for the Handicapped, Inc.

Kevin R. Houlihan

Kevin R. Houlihan was appointed Assistant Director of the Office of Investigations on September 1, 1985. Prior to this appointment, Mr. Houlihan held the position of Deputy Assistant Director of the Office of Investigations.

Mr. Houlihan was born February 2, 1942, in Queens, New York. He attended St. John's University in New York and received a bachelor of science degree in business administration in 1963. He also served in the United States Marine Corps from 1963 to 1966.

Kevin Houlihan was appointed a special agent at the New York Field Office in August 1967. Since his appointment, he has worked on a variety of protective and investigative assignments.

Mr. Houlihan was reassigned to the position of resident agent of the Portland Resident Agency in 1974. Two years later, he was promoted and served in the position of Assistant to the Special Agent in Charge in both New York, and Chicago. Mr. Houlihan was promoted and transferred to the Service's Office of Inspection in 1980. After three years, he was promoted and appointed Assistant to the Director for the Office of Training. Kevin Houlihan became Deputy Assistant Director for the Office of Investigations on March 3, 1985, where he remained until receiving his current appointment.

United States Secret Service. I would like to take this opportunity to express my appreciation for a job well done and to wish him well in the future.

Appropriation Request

The pending appropriation request for Fiscal Year 1987 totals $307,140,000, an increase of $13,140,000 when compared with the proposed authorized level for Fiscal Year 1986 of $294,000,000. This net increase reflects Program Increases of $16,537,000, Maintaining Current Level cost increases of $4,645,000, a reduction of $4,582,000 to the equipment account, and a $3,660,000 decrease in counterterrorism funds.

The Service's Fiscal Year 1986 budget is $281,358,000 following mandated Gramm-Rudman-Hollings' sequestration.

As in the past, protective responsibilities highlighted Fiscal Year 1985. Considerable time and effort were expended in the planning of the Presidential Inauguration. Protective manpower was heavily utilized at the United Nations General Assembly 39 and especially the United Nations General Assembly 40. The latter event was attended by more than 100 Heads of State and foreign dignitaries requiring Service protection. Coordination of details and logistics associated with United Nations General Assembly 40 proved to be the largest protective assignment in Secret Service history.

Continued Increase in Activities

The past year has shown a continuing increase in the activities of the Secret Service. During Fiscal Year 1985, we

provided security to permanent protectees traveling extensively throughout the United States and abroad, and to foreign leaders visiting the United States. Fiscal Year 1985 can be appropriately described as a year of global unrest impacting U. S. citizens and potentially threatening U. S. officials; thus, placing greater demands on the Secret Service than ever before. Terrorism continued to grow, both in its violent nature and scope. A recent Rand Corporation study entitled "The Future Course of International Terrorism" estimates this growth rate to be 12 to 15 percent annually. Despite these projections, the Secret Service foresees increased protectee travel abroad and substantial off-year campaign travel in Fiscal Year 1987. Therefore, the unprecedented protective measures required in Fiscal Years 1985 and 1986 will have to be continued and expanded in Fiscal Year 1987 for our permanent protectees, visiting foreign dignitaries, and foreign missions.

Mounting investigative responsibilities have also placed greater demands on the Secret Service. Credit and debit card fraud investigations have increased by 1,100 percent from Fiscal Years 1984 to 1985. Increasingly sophisticated methods of counterfeiting and accessing credit cards and accessing account numbers will require even more investigative resources in Fiscal Year 1987. The Secret Service similarly does not anticipate declines in traditional areas of investigation such as counterfeiting, check and bond forgery, and protective research cases.

Protective Effort

As in the past, protective responsibilities in Fiscal Year 1985 entailed numerous travel days, manhours, and a consummate

effort from the Service's entire protective force. Protective manhours worked in Fiscal Year 1985 proved to be the highest ever for a non-campaign year.

With the close of the 1984 presidential campaign, our protective effort continued with the planning of the Presidential Inauguration. Adding to our overall protective program was the enormous responsibility associated with planning and executing protection for the United Nation's 40th General Assembly. Special agents from all over the country were called upon to cope with the breadth of this event. During the period of late September 1985 to October 30, 1985, over 100 Heads of State or government visited New York City for this event. During the week of October 20th, 57 Secret Service protectees were in New York.

The challenges associated with this event were made even greater with the additional security measures necessary to deter possible terrorist actions against such a large gathering of world leaders. We were greatly aided in supplying the necessary security forces by personnel from other Treasury bureaus, Federal law enforcement agencies, and State and local governments. I would like to commend these men and women for their outstanding support.

Travel increased dramatically and remained steady throughout Fiscal Year 1985 and early 1986 while major protective events such as the United Nations General Assembly 40, the Geneva Summit, and the International Monetary Fund Meeting continued to test the efficiency and fortitude of our employees. Because of the effort and expert performance by all Service personnel, Fiscal Year 1985

was an overall success for the Secret Service in accomplishing its protective mandates.

Permanent Protection

In Fiscal Year 1985 the Secret Service's permanent protectees included President Reagan and Mrs. Reagan, and members of their family; Vice President and Mrs. Bush; former Presidents Carter and Ford and their spouses; former President Nixon until July 1, 1985; former First Lady Johnson, Chief of Staff Donald Regan, and Secretary of Treasury James A. Baker. These protectees traveled to 3,387 domestic and 193 foreign cities in 1985, both substantial increases over Fiscal Year 1984.

Uniformed Division

The U. S. Secret Service Uniformed Division is mandated to protect the Executive Mansion and grounds, the New Executive Office Building, diplomatic missions located in the Washington metropolitan area, and occasionally missions located outside this area. Uniformed Division protection is also integrated with that for the President, the Vice President and his residence and members of their immediate families.

Activity was exceptionally heavy in Fiscal Year 1985 for the Uniformed Division Magnetometer details. Screening persons in the vicinity of selected Secret Service protectees continued to be an effective program for uncovering weapons and deterring potentially

harmful individuals from approaching protectees. The Uniformed Division's hard work is evidenced by the 1,484,155 individuals processed by magnetometer details. Our White House Branch also conducted tours for 1,115,756 visitors to the White House.

The Uniformed Division Foreign Missions Branch responded to numerous activities in 1985, including the coverage of 203 Embassy receptions, 690 demonstrations, and 410 Embassy or White House alarms. A total of 1,085 events received protective reinforcement from our Counter Sniper Unit, a comparable level to 1984 but a substantial total for a non-campaign year. Support to the Service's protective details was also provided by the Canine Explosive Detection Program.

Uniformed Division responsibilities will expand in the near future with the addition of new magnetometer posts at the White House complex. The use of the magnetometer details has proven to be an effective means of detecting weapons carried in the vicinity of a protectee.

Treasury Police Force

The Treasury Police Force, another uniformed branch of the Secret Service, is charged with the responsibility of protecting

life and property at the Main Treasury Building and the Treasury Annex in Washington, D.C., in addition to providing assistance in various other assignments. This past year, Treasury Police Force personnel arrested 16 individuals, were involved in 12 protective intelligence cases and 39 criminal cases. The Force provided manpower for 201 Presidential security details and 1,064 escort details. Because security for the main Treasury building forms an integral part of overall White House protection the Secret Service is continuing efforts to incorporate this facility under the White House Complex protective umbrella per recommendations in a recent study regarding security at this location. Additional enhancements have already been instituted at the Treasury Department Complex in an effort to upgrade security.

Protection of Foreign Heads of State or Government

In 1985 the Secret Service assigned security details to 139 visiting foreign dignitaries and Heads of State. Protection of foreign VIP's included these annual events: the United Nations General Assemblies, the Caribbean Conference in Miami, and the International Monetary Fund Meeting in Washington, D.C.

Providing a secure environment for our foreign visitors continues to be one of the Secret Service's highest priorities. This effort requires more protective and planning resources each year as visits continue to increase. In addition, National Security Directive 207, signed by the President in January 1986, provides that the Secretary of Treasury, by May 1, 1986, extend

Secret Service protection to accompanying spouses of visiting heads of state. The Statue of Liberty Celebration will take place in July of Fiscal Year 1986. During Fiscal Year 1987 attendance by foreign dignitaries is expected at the annual events mentioned above, and the Pan American Games in Indianapolis. Additionally, Pope John Paul II will visit the U. S. in the spring of 1987.

Pan American Games

The Secret Service is committed to a successful protective effort for the 1987 Pan American Games in Indianapolis. The Service expects a number of Foreign dignitaries and permanent protectees to visit the games.

Candidate/Nominee

Election years are always major tests for the Secret Service's protective forces. Planning, implementing coordinating centers, and setting up communications equipment will be vital preliminary steps which require substantial effort from special agent and support personnel. In Fiscal Year 1987, these areas must be addressed so that the 1988 campaign details can operate smoothly. Preparation will therefore begin in Fiscal Year 1987 with extensive training of Secret Service and other Treasury agents who are needed to support our campaign effort. Communications equipment will be placed at coordinating centers, further drawing upon our resources. These tasks will begin in the summer of 1987 and more than likely compete with the off-year election

campaigning by permanent protectees. Fiscal Year 1987 should prove to be an enormous challenge for the Secret Service, but one that will have a strong impact on the 1988 campaign.

Assistance of Other Federal, State, and Local Law Enforcement Agencies

Without the steady assistance of personnel from local, state and other Federal law enforcement agencies, fulfilling the Secret Service's mission would be extremely difficult. The support of these groups has been constant, cooperative and unselfish, allowing the Secret Service to provide the highest level of protection possible.

Field Offices

Special Agent personnel from the Secret Service's field offices spent a large portion of their duty hours supporting protective functions in Fiscal Year 1985. In 1985, fifty-eight percent (58%) of all Special Agent manhours was devoted to protection, with field office personnel contributing substantially to this effort. Much of this work involved conducting advance surveys for visiting protectees and providing physical protection for incoming permanent and temporary protectee details.

In addition to the heavy reliance upon the Service's investigative personnel for protective reinforcement, substantial hours were spent in protective related investigations. Cases closed totaled 13,426 in Fiscal Year 1985, with 709 arrests, 606

convictions and 254 cases pending for court action. Despite the heavy commitment of investigative manpower to protection, the personnel in our field offices maintained a high level of criminal enforcement during Fiscal Year 1985.

Overall Investigative Caseload

Overall, the Secret Service's investigative caseload continues to increase. Investigations received in 1985 totaled 208,642, an increase of 2,421 over the previous year. Estimates of cases to be received in Fiscal Year 1986 exceed our Fiscal Year 1985 statistics by nine percent. A strong increase is expected in Fiscal Year 1987. The Secret Service closed 198,922 investigations in Fiscal Year 1985, an approximate increase of 10,000 cases over Fiscal Year 1984. The chart on the next page shows the total cases received for investigation over the past five years, as well as the most recent estimates of the number to be received in Fiscal Year 1986 and 1987 (Chart A).

Access Device Fraud Investigations

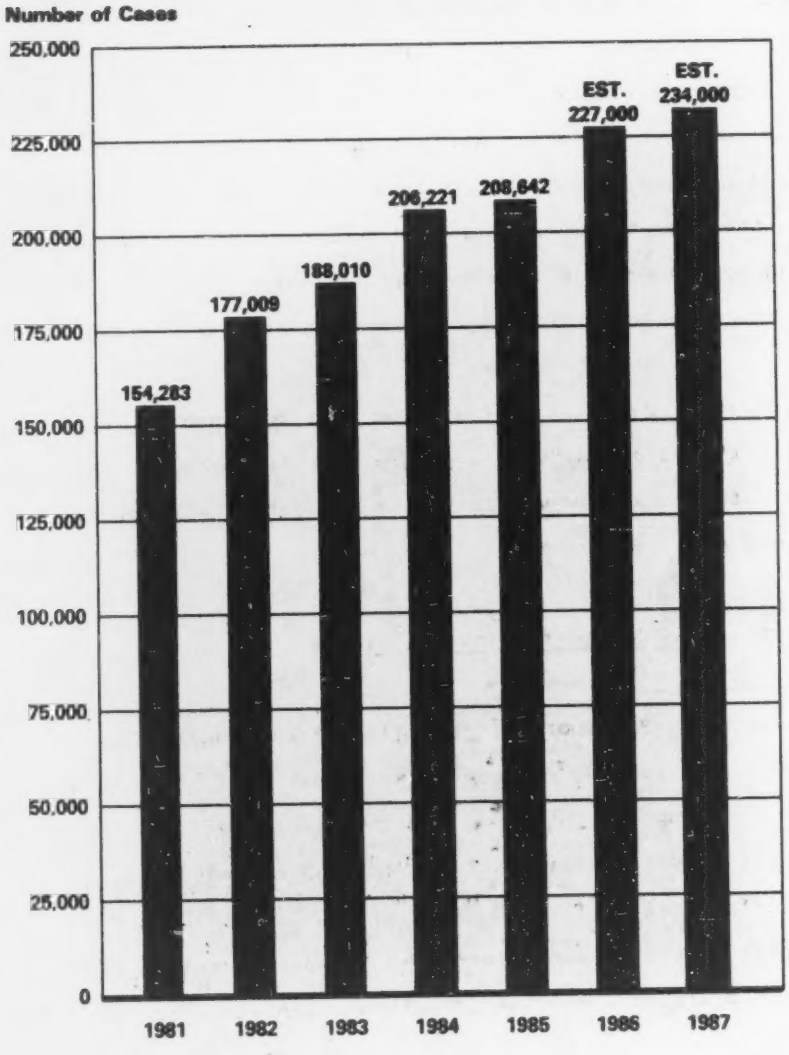
The Secret Service's new responsibilities involving credit/debit card fraud required a significant reallocation of investigative resources during Fiscal Year 1985. Credit and debit card fraud cases received by the Service in 1985 increased 1,100 percent over Fiscal Year 1984. Investigations into the fraudulent

United States Secret Service

Chart A

Total Cases Received for Investigation

Fiscal Years 1981 - 1987



use of credit card account numbers increased from one in 1984 to 628 in 1985. Counterfeit credit card investigations increased from 117 to 559. A total of 584 individuals were arrested, 40,000 counterfeit credit cards were seized, and 100,000 lost, stolen and altered access devices were recovered in 1985. The Secret Service has recently seen a tremendous increase in fraudulent telemarketing operations which have accounted for the loss of millions of consumer dollars. All indications point to a continuation of this trend. In just the first quarter of Fiscal Year 1986, the Secret Service made 408 arrests involving access devices and seized devices with a fraud value in excess of $72 million. These potential losses are based on industry estimates.

The Access Device Fraud jurisdiction will continue to expand in 1987 with the development of a program for the detection and enforcement of Federal law violations in connection with civilian credit agency computer systems.

Counterfeiting Activities

In Fiscal Year 1985, both arrests (1,738) and convictions (1,591) for counterfeiting exceeded Fiscal Year 1984, despite the reallocation of manpower to handle new investigative jurisdictions. Counterfeiting arrests in 1985 exceeded the previous year's total by 159.

Counterfeit notes seized before being passed to the public totaled $61.7 million, a decline from 1984 which was a record year for currency seized. A total of $6.9 million was recovered after

being passed on to the public. One hundred and five counterfeiting plants were also suppressed.

Efforts to suppress counterfeiting overseas have also been expanded with the establishment of the Milan, Italy Field Office. This office will provide the Service with a permanent and cost-effective deterrent to foreign counterfeiting originating in Italy. The Far East Anti-Counterfeiting Task Force recently concluded with several arrests and a plant suppression. This operation had produced the most deceptive counterfeit $100 Federal Reserve Note ever encountered by the Secret Service and was culminated following an 18 month investigation. This operation had originated 14 years earlier in Hong Kong B.C.C. Given the deceptive nature of the notes involved, counterfeit money from this ring had been successfully passed throughout the entire Far East, Middle East, Europe, Canada, and numerous cities in the United States. The Secret Service is presently continuing to explore the possibility of establishing additional foreign field offices.

The following charts (Fiscal Years 1981 to 1985) show the dollar value of counterfeit notes seized before circulation, the overall losses to the public, and the number and dollar value of counterfeit notes passed (Charts B and C).

Check Forgery

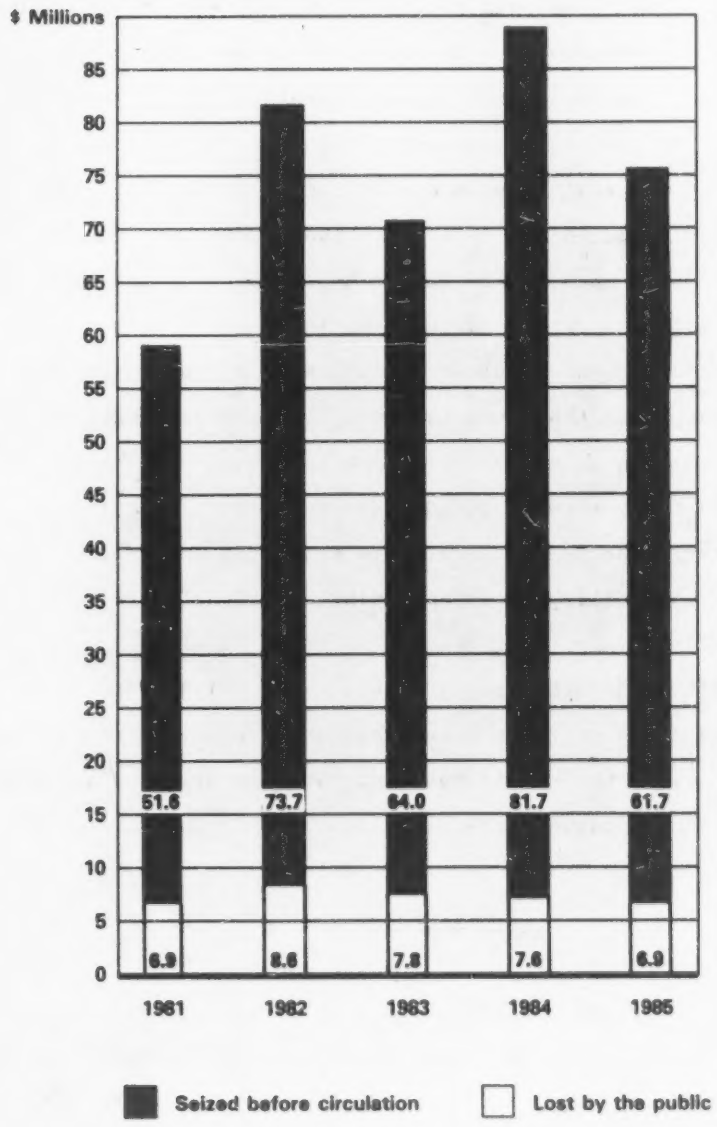
Check forgery and check-related crimes remain a major investigative area for enforcement. Check forgery cases received decreased from 115,455 in Fiscal Year 1984 to 92,373 in Fiscal

United States Secret Service

Chart B

Counterfeiting Activity

Fiscal Years 1981 - 1985

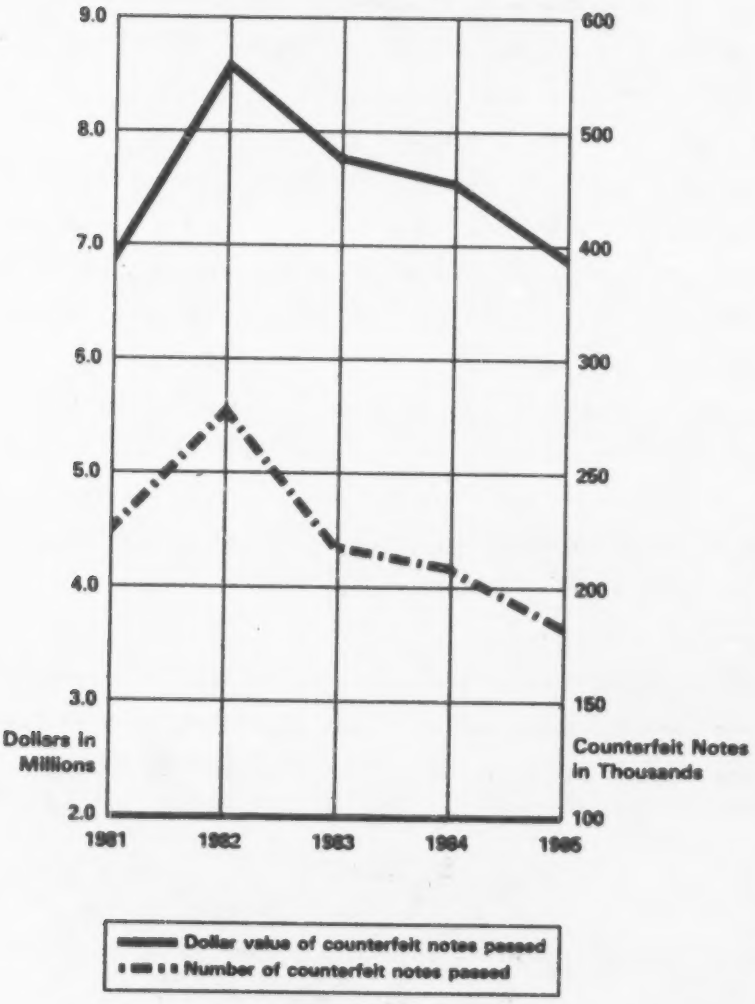


United States Secret Service

Counterfeiting Trends

Fiscal Years 1981 - 1985

Chart C



Year 1985. However, arrests of individuals during the same period rose from 3,862 to 5,403, a 40 percent increase.

Once forged checks are discovered, they are subjected to technical analysis of handwriting/endorsements by the Forgery Division, and compared with previously received forged checks. Noted similarities are then used to associate these checks with known or unidentified check forgers.

In Fiscal Year 1985 the Secret Service led a worldwide investigation involving large quantities of forged U. S. Treasury checks which had been stolen from the mails in the San Francisco area, transported to the Philippines for alteration, and then fenced throughout the world for negotiation. To date, it is estimated that well over 100 million dollars worth of these altered checks had been negotiated or siezed by authorities prior to successful negotiation. This single investigation uncovered the largest total dollar value for forged checks in Secret Service history. The trail of altered/forged checks had led from Southeast Asia to the Pacific, Central America, Africa, Europe, the Mid-East and Asia.

The following chart reflects the number of check cases received for investigation for Fiscal Years 1961 through 1985 with estimates for Fiscal Years 1986 and 1987 (Chart D).

Bond Forgery

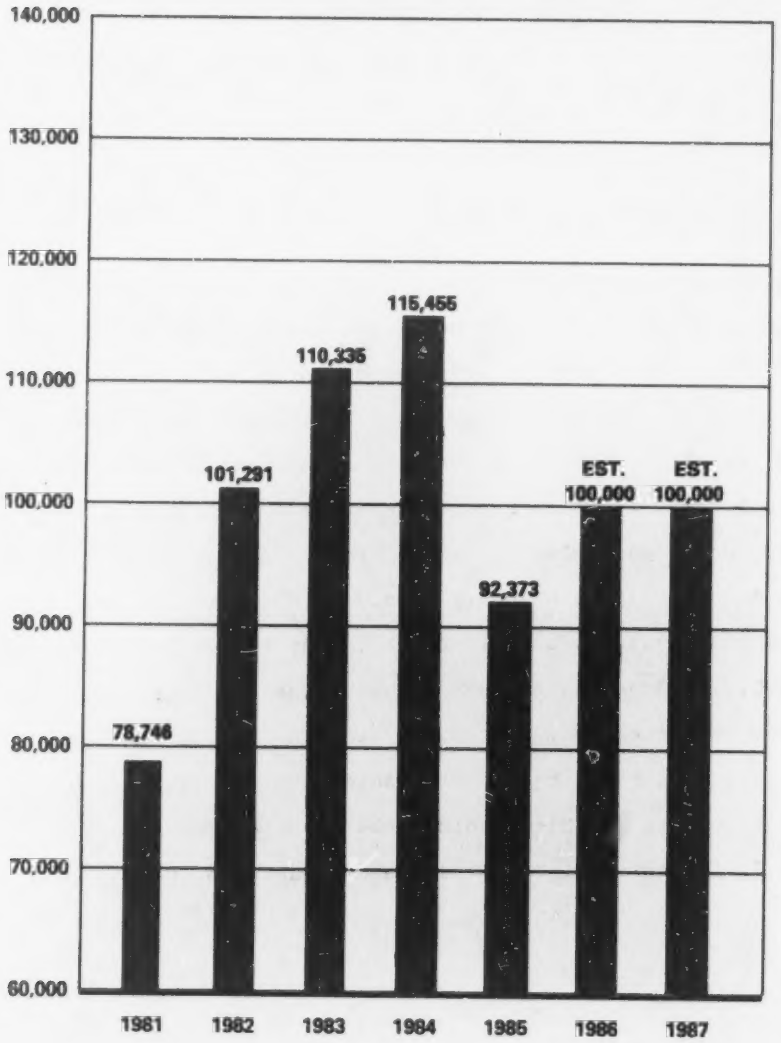
Investigations received for bond forgery cases decreased from 7,003 in Fiscal Year 1984 to 5,420 in Fiscal Year 1985. Bond violation arrests increased from 61 to 117 during the same period.

United States Secret Service

Chart D

Number of Forged Check Cases Received for Investigation

Fiscal Years 1981 - 1987



Additionally, 3,314 referred bonds were analyzed in terms of handwriting/endorsement by the Forgery Division and compared with previously received bonds. Twenty-nine percent of these bonds were associated, through handwriting analyses, with previous forgers who were either known or unidentified.

The following chart details bond forgery cases received for investigation from Fiscal Years 1981 through 1985, with estimates for Fiscal Years 1986 and 1987 (Chart E).

Computer Fraud

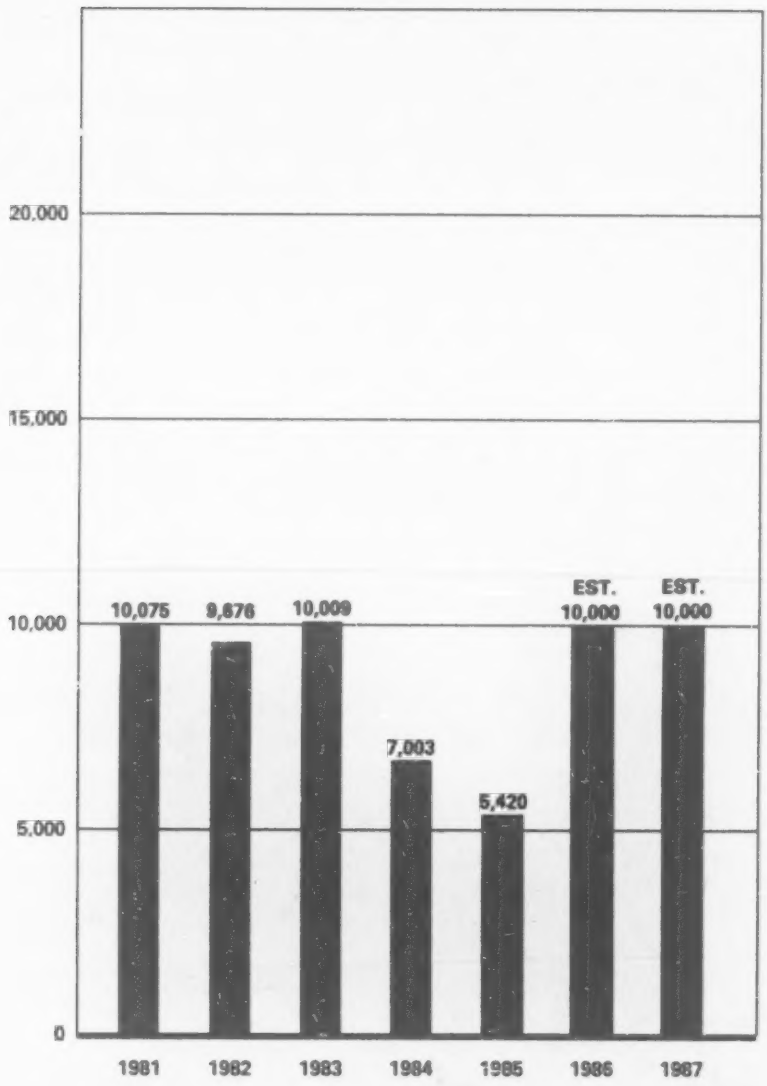
On October 26, 1982, Department of Treasury Order No. 170-1 was signed authorizing the Secret Service to receive and analyze allegations of, and develop information and conduct investigations concerning thefts and frauds involving electronic transfer of funds (a) which belong to the Treasury Department or a subsidiary agency; (b) for which the Treasury Department or any subsidiary agency may be responsible or liable; or (c) with respect to which the Department or any subsidiary agency may otherwise have, or have to defend against, a civil claim of any type. In October of 1984, 18 U.S.C. 3056 was amended to authorize the Secret Service to "detect and arrest any person who violates any of the laws of the United States relating to electronic fund transfer frauds..."

Direct Deposit and Electronic Funds Transfer Investigations totalled 7,916 in Fiscal Year 1985, a decrease from Fiscal Year

United States Secret Service Chart E

Number of Forged Bond Cases Received for Investigation

Fiscal Years 1981 - 1987



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United States Secret Service

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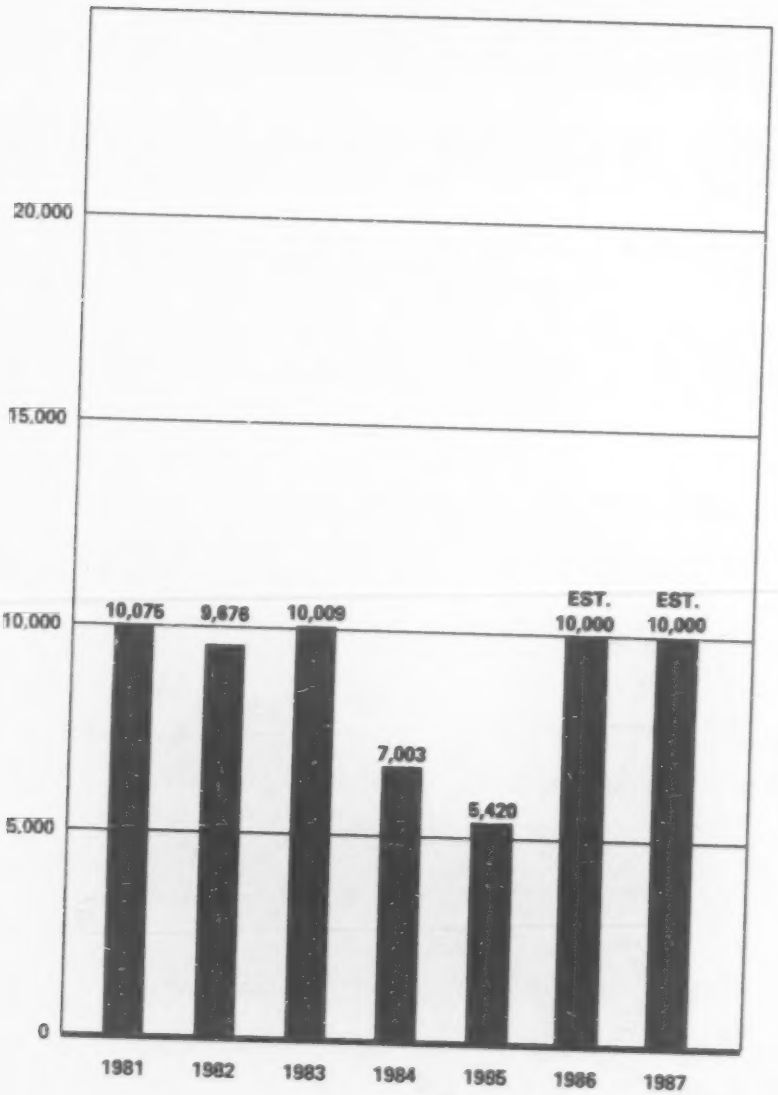


1984, but an approximate 3,500 increase over 1983, which was the first year of the program. Undoubtedly, this jurisdiction will require more resources in the future as the Secret Service learns more about counteracting the sophisticated tactics and techniques associated with this form of computer fraud.

Organized Crime

The Secret Service continues to participate in the Organized Crime Strike Force Program of the Department of Justice and is an active member of the National Organized Crime Planning Council, which consists of members of Federal law enforcement agencies. The Council visits the various strike forces throughout the country and gathers information concerning organized crime activities. At present, the Secret Service has designated 14 Organized Crime Strike Force representatives in our field offices who coordinate their efforts with the national representative assigned to headquarters.

Visits by the Council to the strike force districts have renewed enthusiasm and interest in the program. Our strike force representatives report that inter-agency cooperation has improved and, as a result, information that otherwise would not have been received has become available, proving beneficial to our investigative activities.

Operational Balance

Resources must first be devoted to our protective programs since this is the highest priority in the Secret Service. However, the goal of the Secret Service is to promote a balance between investigative and protective duties. Therefore, the Service's expanding investigative jurisdictions have complemented our escalating protective duties. Moreover, this balance requires maximum effort and flexibility on the part of our special agents. We have found that investigative responsibilities provide the special agent with an important sense of awareness, sharp instincts and observational qualities which are absolutely vital to producing a maximum protective effort. Improvement of all of these areas gives the special agent a keen sense of his and her protectee's environment. This balance of duties (investigation and protection) will continue to form an integral element of our protective strategy in the future.

Protective Research

Enhancement of security in the White House Complex continued during FY 1985. This included the fabrication and installation of more crash resistant gates. Electronic and other systems were also developed and implemented in support of the Service's overall protective and investigative missions. These included the new First Family locator system, a new generation of portable weapons

detectors and the fabrication and delivery of several alarm systems. In Fiscal Year 1987 this office will finalize research studies for a specialized counterterrorist detection system which will integrate existing civilian operational systems with newly developed military systems. An upgrading and modernization of our armored car program was also a significant accomplishment in Fiscal Year 1985. These upgrades are urgent and necessary projects given the imminent danger to vehicular movements posed by terrorists. Implementation of advanced countermeasure techniques, new armoring options and state-of-the-art detection systems are planned for Fiscal Years 1986 and 1987.

Since the beginning of this decade, the Secret Service has been involved in planning and implementing an organization-wide ADP modernization program. The program includes: creating centrally supported databases; upgrading mission-support computer applications for front-line users; replacement of our mainframe computer systems along with splitting mainframe locations between headquarters and an alternate site; acquisition of standard multi-purpose workstations; implementation of a nation-wide network to interconnect all Secret Service locations electronically; and participation in the Treasury digital PBX project for Washington area users.

Although some initiatives will be ongoing, we expect to complete all of the critical portions of the ADP modernization program that will be required to support the 1988 Presidential Election Campaign, which will get underway at the end of fiscal year 1987.

The Communications Division was involved with several projects in Fiscal Years 1985 and 1986, including providing general support and over one thousand pieces of communications equipment for the United Nations General Assembly.

Training

The Office of Training followed Fiscal Year 1984's heavy campaign training schedule with a productive year in 1985, marked by an increase in daily training scenarios and training methods. One hundred and nine newly appointed special agents were trained in all phases of Secret Service responsibilities. Advance protection and protection-related subjects were taught to 431 special agents during special protective detail seminars. Through Dignitary Protection seminars and Protective Operations briefings, over 1,000 Federal, state, and local police officers received training in Secret Service protective procedures.

Preparation for the 1988 campaign will begin during Fiscal Year 1987, encompassing the latest training techniques for special agent personnel. Courses will be developed and implemented for Detail Supervisors, Advance Agents, and operations and support personnel. Candidate details will also be planned. Courses for the training of Treasury Department agents to be called upon for campaign assistance will also go into effect.

Training of uniformed officers in Fiscal Year 1985 included the completion of four Uniformed Division Officer in-service training classes. Three Uniformed Division recruit classes

graduated 71 officers. An independent review of the Canine Training Program was also conducted in March of 1985 and the Secret Service's program was found to be stable. Uniformed officer training in Fiscal Year 1987 will include the implementation of a fully integrated training program for all protective elements. Additionally, weapons and law-enforcement equipment will be tested and evaluated to insure that they meet advanced technological standards.

Development of the James J. Rowley Training Center remains an urgent priority for the Secret Service in terms of eventual completion of the master plan. This progression depends on available resources. In Fiscal Year 1986, detailed construction design plans will be readied for the Security and Computer Building, Protective Driver Training Course and a simulated airport apron. After completion of this phase in early Fiscal Year 1987 a contract for construction of these features is expected to be awarded in the spring of 1987. Further development of the plans for completion of the Master Plan project will continue to be developed as resources permit.

Equal Employment Opportunity

The Service has continued to pursue a vigorous program for the recruitment of qualified minority employees, as well as a program to prepare minority clerical employees for advancement into administrative and technical positions. As you know, the Service has a special need for minorities in the ranks of our special

agents and uniformed officers. Accordingly, we have conducted significant recruitment efforts for these categories of personnel so that we can compete with private industry for qualified minorities. A record number of minority applicants were hired as special agents in Fiscal Year 1985. Approximately 29.9 percent of all special agents hired were from a minority group.

Extensive efforts were made during Fiscal Year 1985 in cities where we could gain access to designated minority groups. We processed over 1,644 applications from these recruitment groups for special agent and uniformed officer positions and intend to continue in this vitally important endeavor.

Freedom of Information and Privacy Acts

During Fiscal Year 1985, the Service processed 537 Freedom of Information requests and 124 Privacy Act requests. Additionally, our Chief Counsel processed 51 FOI administrative appeals and actively assisted in the litigation of eight judicial appeals. Since the passage of the Freedom of Information and Privacy Acts in 1974, the Service has spent in excess of $300,000 each year in responding to the numerous requests. In Fiscal Year 1985, direct expenses associated with processing FOI and Privacy Act requests amounted to $233,000. Of this amount, less than one-half of one percent is potentially recoverable through FOI/Privacy Act billings. The actual amount recovered amounted to approximately one-tenth of one percent.

Summary

In summary, Mr. Chairman, Fiscal Year 1985 was a successful but demanding year for the Secret Service in which our greatest concern was upgrading security measures to cope with the increasing terrorist aggression surrounding us. The safety of our protectees must always be the Service's first priority, and it requires an increasingly higher level of effort and resources. As a result, more manpower was expended in protective activities in Fiscal Year 1985 and our technical capabilities reached new levels of sophistication. In that respect, Fiscal Year 1985 can be looked upon as a transition year; one which should set a precedent for meeting future protective demands.

I am grateful for this Committee's understanding and support for the Secret Service in the past. I would also like to acknowledge the supreme efforts of our Secret Service employees who possess the individual pride and concern that produces an outstanding team effort. This same intense, dedicated effort from our agency will continue in the future.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions you or the other members of the Committee may have.

GRAMM-RUDMAN-HOLLINGS REDUCTION

Mr. ROYBAL. Thank you.

What impact has Gramm-Rudman had on your operation?

Mr. SIMPSON. Sir, at the present time we have postponed many normal operating expenses and replacement items based upon the Gramm-Rudman-Hollings Act, which mandated that a 4.3 percent reduction be taken by most government agencies. At the present time, I think we are going to be able to handle all our responsibilities and take the cut. Treasury was very good to us and supported us 100 percent as we went forward in the budget process to OMB. Treasury was able to fight conclusively and very effectively for a raise in our budget, which, hopefully, in the future would help us overcome some of the things that Gramm-Rudman made us suffer in 1986.

Hopefully, 1987 will not bring on more mandated cuts. If it does, I don't know exactly what we are going to do. As I mentioned, most of what we did in 1986 was to postpone filling vacancies, and replacing equipment and other normal operating items.

Mr. ROYBAL. Your request for 1987 is $25.7 million, more than 1986?

Mr. SIMPSON. It is to make up for 1986, sir.

Mr. ROYBAL. That in fact is making up for Gramm-Rudman?

Mr. SIMPSON. Yes sir, $12,642,000 represents restoration of amounts sequestered in 1986. Regarding the remainder, Treasury, as I mentioned, was very good to us. I think you will find, Mr. Chairman, that sometimes, in the past, we had our differences of opinion with certain members of the Treasury. That is not the case any longer. The Secretary, Deputy Secretary, and the Assistant Secretary for Management and the Assistant Secretary for Enforcement have been wholeheartedly in support of every endeavor we have tried to accomplish. If there are any cuts in our budget, which of course there were when it went forward to OMB, it was not because Treasury didn't try to get the maximum for us, it was a case of where the pie has shrunk. Accordingly, to get a piece of that pie, they had to fight for everybody, including us, and I think under the circumstances, we didn't do too badly.

Mr. ROYBAL. You are still not complying with the 4.3 percent decrease in Gramm-Rudman imposed on all agencies?

Mr. SIMPSON. Yes sir, we are going to comply with the 4.3 percent reduction.

Mr. ROYBAL. For 1986?

Mr. SIMPSON. Yes sir. We are hoping there will be no mandated decrease in 1987.

Mr. ROYBAL. Well, I hope that your hope comes true.

Mr. SIMPSON. I hope so too, sir.

COUNTERFEITING ACTIVITY

Mr. ROYBAL. Now, what is the overall situation with regard to counterfeiting now? Elaborate on that. Last week we had the Bureau of Engraving and Printing coming before this committee and they also presented testimony with regard to counterfeiting. Are you working with the Bureau of Engraving and Printing to make counterfeiting more difficult?

Mr. SIMPSON. We are.

Mr. ROYBAL. What is the extent of your cooperation?

Mr. SIMPSON. Of course, our particular responsibilities are in the area of security and we are cooperating with the Bureau of Engraving and Printing, with the Treasury, and with the Federal Reserve. We have a group that meets periodically. It is called the Advanced Anti-Counterfeiting Deterrent Group, and we have made certain suggestions which have been submitted to the Secretary. I understand that he is now in the process of looking into those suggestions. He will make an announcement in the not too distant future as to what deterrents will be included in the currency.

Mr. ROYBAL. Do you cooperate with the Bureau of Engraving and Printing on a daily basis? How do you cooperate?

Mr. SIMPSON. We meet periodically with the Advanced Anti-Counterfeiting Deterrent Group, and each of us in our individual areas of responsibility have come forward with suggestions that we feel will help deter counterfeiting in the future.

Mr. ROYBAL. We saw some counterfeit $20 bills in Hawaii.

We won't go into that at the moment, but it was quite an amazing session.

Mr. SIMPSON. Yes sir. We have some exhibits with us today to show you.

INTELLINGENCE INFORMATION

Mr. ROYBAL. Now, without disclosing any classified information, how would you rate the method of receiving intelligence information and the quality of the intelligence you receive?

Mr. SIMPSON. I would say, sir, on a scale of one to ten, with a ten being the highest, it is a ten. Right now we have excellent rapport with the Federal Bureau of Investigation and the CIA. We are doing very well. I would strongly commend both Directors Webster and Casey and the people who work for them. The cooperation has been absolutely outstanding.

COUNTERTERRORISM FUNDING

Mr. ROYBAL. I like to hear that.

Your budget shows a reduction of $3.6 million for counterterrorism.

Mr. SIMPSON. Yes, sir.

Mr. ROYBAL. In FY 1987?

Mr. SIMPSON. Yes, sir.

Mr. ROYBAL. Are these the funds that Congress authorized in FY 1986? If so, why are you showing these costs nonrecurring?

Mr. SIMPSON. We got caught in a delayed basis upon the continuing resolution not being passed until late December. By that time, we had already gone through the initial stages of presenting and appealing our 1987 budget with OMB. Because the continuing resolution had not been passed, they would not accept that as part of our 1986 budget. Therefore, it must be backed out in arriving at the 1987 totals. We would like to have that included in the budget. That is a portion of our overall Protective Research Program of which we feel very strongly, because we had started some programs, and had begun some enhancements that we were beginning

to, in my opinion, get on the plus side of terrorism. We are running to catch up all the time with the expansion in terrorist tactics and therefore, it would be very appropriate in my opinion, for us to receive those funds.

Now, saying that, I want to make sure that the committee understands that the Treasury tried as hard and forcefully as they could to get counterterrorism money for us. Unfortunately, OMB was not sympathetic to us.

Mr. ROYBAL. It seems to me that that is a most important item.

Mr. SIMPSON. I couldn't agree with you more, sir.

Mr. ROYBAL. What is the rationale behind this? I can't understand why they would decrease counterterrorism funds.

Mr. SIMPSON. I would be at a loss——

Mr. ROYBAL. Especially at this time.

Mr. SIMPSON. Again, I agree with you. I would be at a loss to try to explain it and I won't attempt to.

Mr. ROYBAL. That is one question we will have to ask OMB when they come before the committee.

Mr. SIMPSON. I think that would be the proper area.

ADDITIONAL PERMANENT POSITIONS

Mr. ROYBAL. Now, your fiscal year budget for 1986 shows an increase of 30 permanent positions.

Mr. SIMPSON. Yes sir.

Mr. ROYBAL. OMB did in fact authorize these, but without associated funds?

Mr. SIMPSON. No funds. I might suggest, sir, that we were also mandated, based upon the National Security Directive 207 signed by the President in January 1986, that we assume responsibilities for accompanying spouses of foreign heads of state. We, of course, during the formulation of the 1986 budget did not know that was going to happen. So obviously we didn't get any funds in 1986, and we were too far along in the 1987 process to get any funds for 1987 to go along with that responsibility. However, I am fairly sure that the State Department has funds for that and I would suggest that maybe it would only be fair that the money that was given to the State Department for the responsibilities for accompanying spouses be transferred to us. Maybe we could use some of that money for the 30 positions that we were given, but not given the money for, because certainly it is going to increase our responsibilities and my best recollection is 30 would be a very reasonable number to help us.

Mr. ROYBAL. If you did not receive additional funding, would it make it necessary for you to decrease other activities?

Mr. SIMPSON. The only place we can draw from is our existing personnel. We would have to decrease some other areas. What we have done—I think we are doing very well. We have been able to prioritize in other areas to the point where we don't think we are diminishing this product that we are giving to the public. If we continue to be given responsibilities, obviously at a given point in time that product is going to fall if there is a normal course of events.

Mr. ROYBAL. You did in fact request money for these positions?

Mr. SIMPSON. We did in the initial budget stages. Unfortunately by the time it got to OMB, they cut out those positions. We went back and appealed and Treasury fought a good fight for us and came up with 30 positions, but couldn't get the funding.

Mr. ROYBAL. In other words, they didn't quite win but they didn't quite lose?

Mr. SIMPSON. That is right, they fought to a draw. I think that was the problem, and I guess if you want to look in that direction, the people who are sitting there with the money ultimately win and OMB is the final arbiter of the money.

Mr. ROYBAL. In this case, with regard to antiterrorism, we lost.

Mr. SIMPSON. Again, I couldn't agree with you more. I want to emphasize again that Treasury went to bat 100 percent for us.

ACCESS DEVICE FRAUD

Mr. ROYBAL. I was interested in what you had to say about credit cards, fraud in the operation of credit cards. Has it increased?

Mr. SIMPSON. Yes, it is amazing.

Mr. ROYBAL. Eleven hundred percent?

Mr. SIMPSON. This area is absolutely a growth industry. With your permission, we have a couple of exhibits to show you, just to give you some idea as to how easy it is to commit these types of fraud. Up until the time that the Federal Bureau of Investigation and ourselves signed a memorandum of understanding, these cases, very frankly, were not being worked as aggressively as they possibly could have been, simply because the FBI doesn't have the personnel, nor do we.

Between the two of us, we were able to put some effort into this thing. We have done a good job at it. We, according to the industry, have cut down at least in the general New York area, probably 40 to 50 percent of the credit card fraud. That is not just us saying that, it is the industry.

Mr. ROYBAL. Is a lot of this due to the fact that we can buy something over the phone and give our credit card number?

Mr. SIMPSON. Yes sir. I am not at liberty to tell you all the circumstances because it is in the legal process right now. But it applies to a couple of cases.

Mr. HOULIHAN. If you look on the back of your exhibit you can probably see where another number pre-existed on that charge plate and another one was embossed right over it. Those are altered cards as opposed to counterfeit cards.

Mr. SIMPSON. There is a little activity going on in the New York area, in which they had broken the MCI and Sprint codes, using a black box attached to the phone. The perpetrators would discontinue calling just prior to reaching the maximum charges that would cause Sprint or MCI to become suspicious. They would cut off fraudulent charges there. What they were doing was offering a prize to people when they called them up in the process of offering some small token for sale.

The indication given to the people on the other end of the phone was that they would win a trip to Florida, Hawaii, or wherever. It was absolutely amazing. They operated a full scale type of business. Many of the people that were making the phone calls for

them didn't have any idea what was being done. The perpetrators would use any credit card numbers they accquired to purchase up to a thousand, $2,000 dollars worth of goods. If you hit enough people with that, you really can hurt them pretty hard.

I would suggest that any time you use a credit card to purchase anything, you yank those carbon copies out of there and make sure you don't leave them around. When stores deposit them in the refuse afterward, people go around and scoop them up. Using a white plastic card which they put through an embossing machine to stamp out the number, they then use your card for a period of time. They can call up and say they would like to make a purchase. That is the type of thing I mean. Then you have merchants that would be more than willing to take that card, and let you purchase any amount of merchandise, because the credit card companies are paying them. Of course, ultimately the money that is being taken by this fraudulent activity is being paid for by the consumer.

These next exhibits are counterfeits as opposed to being altered. With your permission, you can see what they are doing in some of the areas when the exhibit is blown up. Mr. Houlihan, who is Assistant Director for Investigations, can show you some of the areas. If you are not a sophisticated person, like me, I would give my credit card over to an individual, or whatever, and the people on the other end of it, unless they are trained wouldn't have any idea what they are picking up. They could be picking up one of these.

Mr. HOULIHAN. It is very difficult to distinguish between a genuine and counterfeit credit card, even by looking at blow-ups. The area that we have highlighted has to do with registration of a card, the ordinary citizens would not be aware or even concerned about how much border is on each of the cards. You see here the registration on both of these cards. On the counterfeit side it is a little bit off from what it should be, and then you need to look at that——

Mr. ROYBAL. Excuse me, I don't know what you mean by a little bit off——

Mr. HOULIHAN. Just a little bit of the border, of the white part under it, a little border that runs down, it is supposed to be exactly a millimeter wide on each of the credit cards. You will see down here that space is a bit larger. Then here, these are the things we need to look for, this little dot above the "E", would indicate to us that it is a counterfeit card. On the other side there is a little spot on the Citicorp emblem.

Mr. SIMPSON. You can see right in the back where they have the cross there is a little white imperfection there which you would really have to know or be aware of, that this might be a fraudulent card before you pick it up.

Mr. ROYBAL. This, I assume, is a legitimate card?

Mr. SIMPSON. No.

Mr. ROYBAL. Because it is mine.

Mr. SIMPSON. I thought maybe we would have some fun on this one, sir.

Mr. HOULIHAN. One of our agents was testifying in a trial of counterfeit currency and the judge did what you did, took a note out of his pocket and it was a counterfeit.

Mr. ROYBAL. Can you or your agents determine whether or not that is a counterfeit card?

Mr. SIMPSON. They could, yes. We are training all of our agents to be able to detect counterfeit cards. We also have a group of individuals in our forensic area, who can identify things in the composition of the card and all the rest of it, so that we know which ones are and are not counterfeit.

I think that you would get a ringing endorsement from the industry as to our impact on credit card fraud, counterfeiting of credit cards, and just generally across the board, all of the illegality that goes on in that industry. It is quite considerable.

TELEMARKETING FRAUD

Mr. ROYBAL. Wouldn't a prohibition of some kind be in order? For example, that a credit card only be used by those individuals that actually present the card and not do it by phone?

Mr. SIMPSON. I am sure that those types of things would be advantageous. Unfortunately, I think you would find there would be a lot of opposition in the industry because the amount of money and the profit that they make is so great, they are willing to accept some of the losses. Again, they pass it on to the consumer.

Mr. HOYER. The same analogy to open shelves in a store. It encourages shoplifting and encourages consumerism, which is the same thing on television where you have the number to call in and order the record that you can't get anyplace else.

Mr. SIMPSON. There is a basic premise.

Mr. ROYBAL. It also encourages thievery.

Mr. HOULIHAN. Right.

Mr. ROYBAL. I think we have to make a choice.

Mr. SIMPSON. The Congress of the United States did an absolutely first rate job in the Crime Control Act of 1984. They put some teeth into some of these laws that gave us an opportunity to go out there and arrest these people. Some of them who were out there, even if they were caught, got a slap on the wrist and that was it. The laws need to be tightened up a wee bit. We have taken a quantum leap forward as far as being able to arrest them and to punish them before the judicial system. We are doing it and doing it very well. Last year we made over 500 arrests. This year it is probably going to be twice that or maybe three times that.

STOLEN ACCOUNT NUMBERS

Mr. ROYBAL. When one uses a credit card he is given that little yellow slip.

Mr. SIMPSON. Receipt.

Mr. ROYBAL. What else is left that is thrown away that might have the number?

Mr. SIMPSON. The one portion of it goes to whomever it is that you purchased the item from—a restaurant owner—would take a portion of it. One portion of it goes to the credit card company.

What you need to do is make sure you yank out the carbons because those are the ones that are thrown away. Those are the ones that go into the refuse and sometimes people come by, they will scoop up the whole thing and then use that white piece of plastic, which is what they emboss the numbers on. They take what they can from the carbon, run it across the white plastic and embossing

machine, and can charge probably up to a thousand, two thousand dollars worth of bogus purchases.

You have to be very careful. You have to be an enlightened consumer more than anything else. Of course, on the other side, you have merchants working right now with some of these credit card companies and banks to make sure that they are more aware of this, and they are being more cooperative at this point in time.

Mr. ROYBAL. Has there been an estimate of how much is actually stolen using credit cards?

Mr. SIMPSON. We wouldn't have a sufficient base of data because we haven't been into it long enough at this point in time to give you any actual figures. I probably could come up with some figures from the industry but we would rather come up with our own because I don't know whether theirs would be inflated or understated. I have no idea. We just don't have a strong data base to make a prediction at this point. Hopefully, in the next year or so, we will be able to give a better answer.

COUNTERFEITING ACTIVITIES

Mr. ROYBAL. What about the counterfeiting of money?

Mr. SIMPSON. In fiscal year 1985, the Secret Service seized $61.7 million in counterfeit Federal Reserve notes in the United States. The public absorbed approximately $6.9 million in counterfeit money passed. We were able to get 104 plants, which is the second highest that we have ever gotten, in the last year. We seized 90 percent of all counterfeit money before it was passed on the public.

I think one of the things you saw, sir, at one of the hearings that you had, were some notes that were printed by some very outstanding counterfeiters in Bangkok. Mr. Houlihan has these. These are absolutely exceptional. We were fortunate, thanks to a year long investigation, in which we had people in Bangkok, Hong Kong, and Malaysia working very closely with the authorities in those countries. We were able to put into effect some Title IIIs, listening devices based upon the laws in those countries, and were able to apprehend these individuals before a new counterfeit note got out. If these counterfeits ever got out, it would have played havoc with the economy.

Mr. HOULIHAN. The individual who is responsible for these notes counterfeited some other notes a while back, and not only did he use the same techniques that the Bureau of Engraving used, he also was able to determine one of the security features in our currency and reproduced that in a way that the notes that he manufactured actually passed through our banking and Federal Reserve Systems and back into circulation.

Mr. HOYER. Undetected?

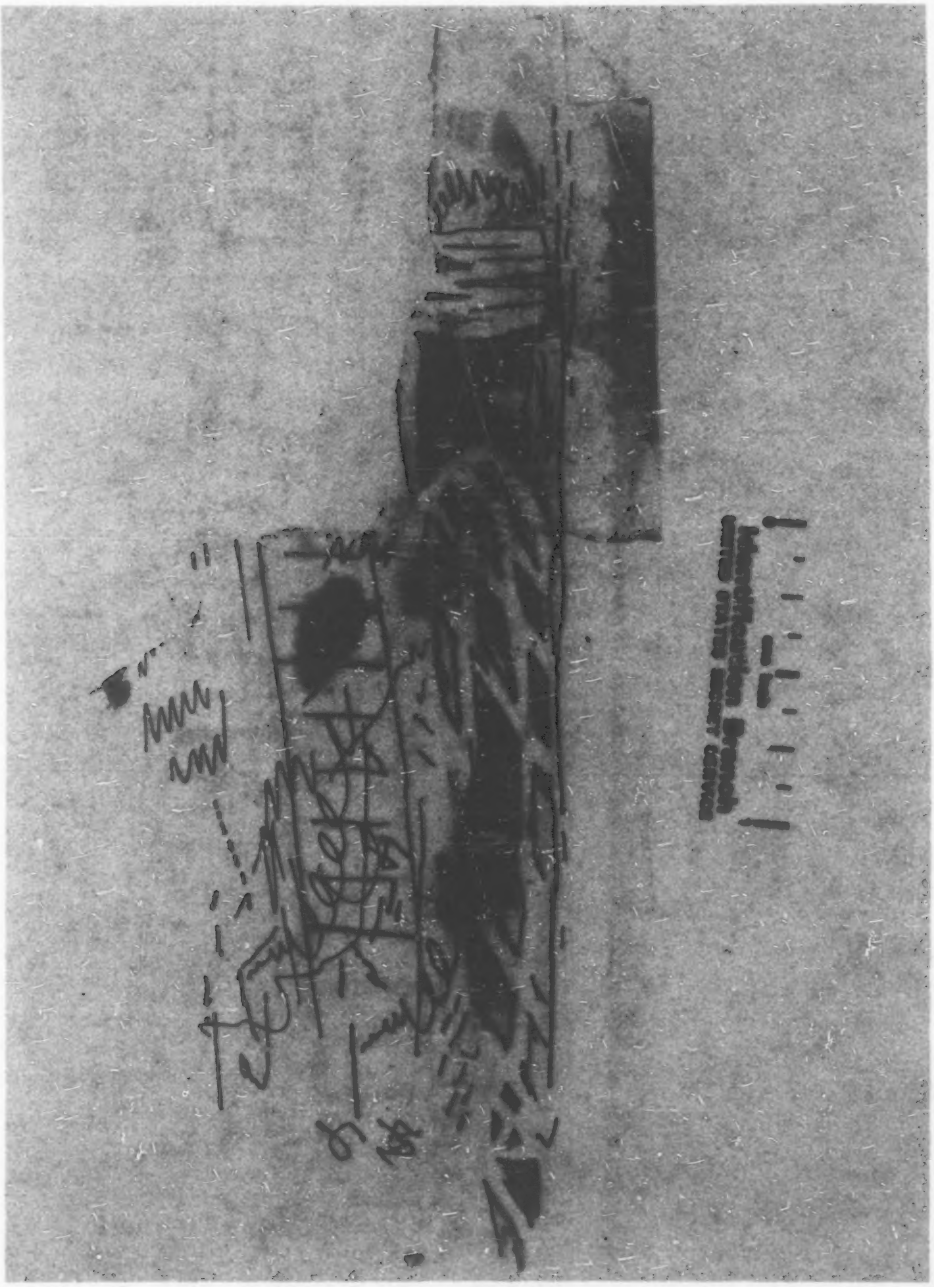
Mr. HOULIHAN. Yes sir. This is the finest counterfeit that we have seen in Secret Service history.

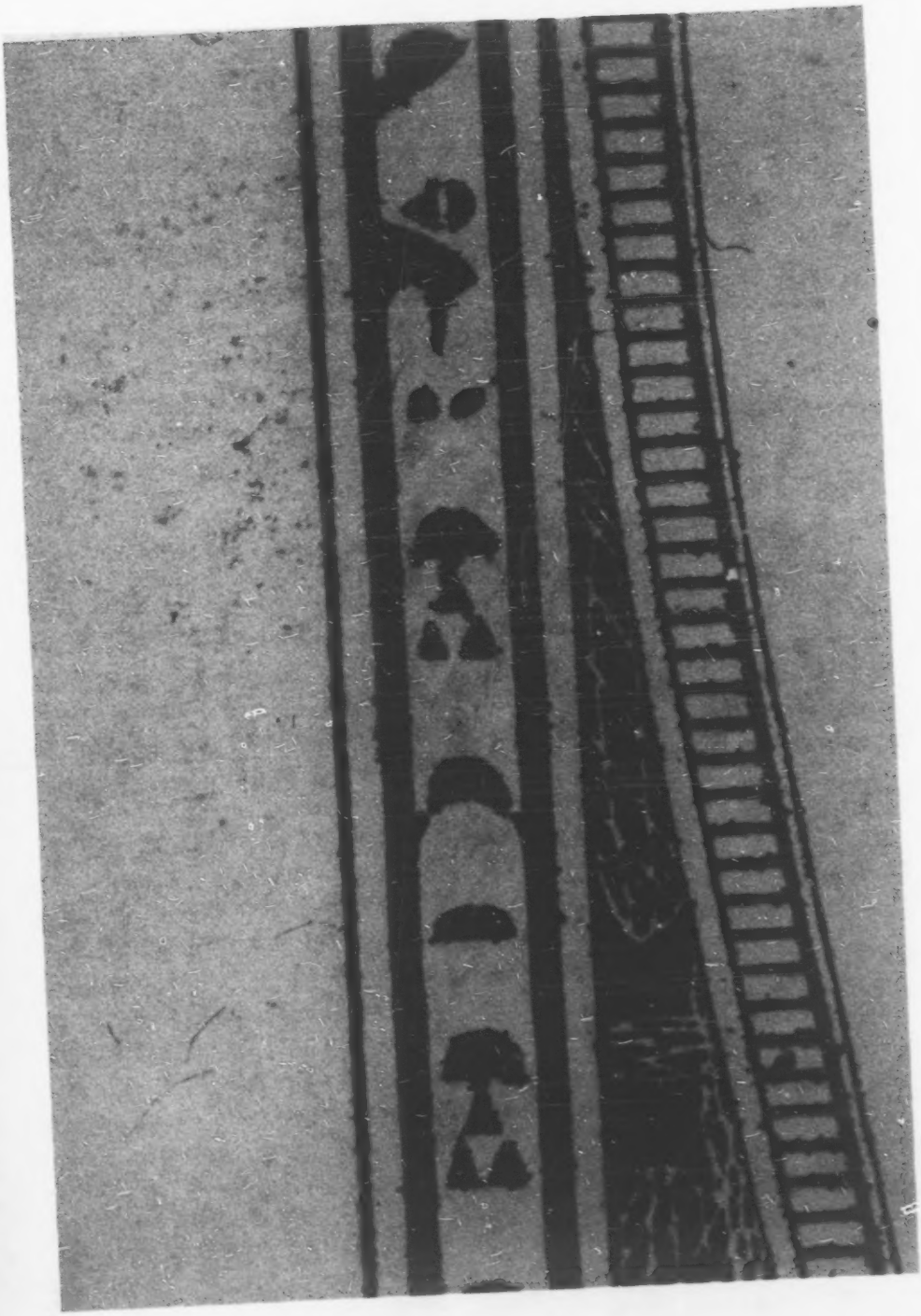
Mr. SIMPSON. This gentleman was not satisfied with the product. That helped us to apprehend him. He was not satisfied with his own product, he wanted this thing to be perfect.

Mr. HOULIHAN. One of the techniques we used over there was sanitation engineers who went through the man's garbage and after several days found three pieces of paper. We put them back

together with the use of our forensic experts, and this is what had been in the trash. By analyzing that we came to understand for the first time that this individual, that we know as a master counterfeiter, was working on American currency. If you look at this area here, look right here, you will see that he was working on the scroll work of a $50 bill. That was the first time we knew for a fact that he was working on American currency.

[The exhibits follow:]





Mr. SIMPSON. He made some of his own substances.

Mr. ROYBAL. Where did he get the ink?

Mr. SIMPSON. He made his own ink. If he was legitimate he would be a fine catch for some organization who is looking for a person who had enterprising abilities.

Mr. ROYBAL. Where is that individual?

Mr. SIMPSON. He is in prison in Thailand, sir.

Mr. ROYBAL. That is good.

Mr. SIMPSON. Along with all of his other associates.

Mr. HOYER. You took these out of your wallet, Mr. Chairman?

Mr. ROYBAL. Not this time.

Mr. SIMPSON. You wouldn't do that to us, would you, Mr. Hoyer?

Mr. HOYER. I was asking if the chairman did it to you.

Mr. SIMPSON. This case was quite amazing and I have to suggest, sir, to the committee, that our people did one outstanding job. It was just absolutely first class. They spent a year on this investigation. Now, when I say a year, I mean a chronological year. These folks were away from their homes, away from their families, spent 20, 24 hours a day sometimes surveilling these people, along with local authorities. Also in the listening capacity, which I am sure you are well aware are some very boring hours that you have to spend with a pair of headphones on to make sure that you pick up every single thing being said in the particular area.

If we hadn't got a hold of this, if these individuals weren't as vigilant as they happened to be, we could have missed something. Those counterfeits could have gotten out to the public.

Mr. ROYBAL. I am not surprised they did an excellent job. They usually do, don't they?

Mr. SIMPSON. Yes sir.

Mr. AKAKA. Is this the same person that was engaged in the Hong Kong counterfeiting?

Mr. SIMPSON. Yes sir.

Mr. AKAKA. How long has he been in the business, do you know that?

Mr. SIMPSON. This is his second time around. He was an apprentice to an individual that was arrested some ten or fifteen years ago. He learned his trade from him and fortunately we were able to catch him before it was circulated. Based upon his abilities and upon the fact that he had been tutored by this so-called expert in the area, he decided that he was going to counterfeit on his own this time. The other gentleman has passed away in the interim and he was an outstanding artisan, no question about it. We were very fortunate to get him when we did.

Mr. AKAKA. Do you have a guess as to how much he has put into our system?

Mr. SIMPSON. We seized all of the $50's before they were put into the system. Approximately $5 million in other denominations did get into the system.

ADVANCED PRINTING PRESS TECHNOLOGY

Mr. ROYBAL. We were also told that a printing press is being developed in Japan somewhere that was coming to the United States——

Mr. SIMPSON. That is part of what we know about it, sir. The proprietary interest of the people who developed it is such that they won't share any of their information with anybody else, for obvious reasons, at this point in time, because of the expense of the machine itself. They haven't come in great volume, but what we are concerned about is over a period of time as the price goes down, and the introduction of these machines and their competitors are made into the country, we might get into a situation where you get the casual type of counterfeiter. For instance, we might get an individual who works in an organization which has one of these machines. He has a date one evening but doesn't have enough money to take whomever out, so he would go and print a few $50's or $20's.

Now, when you get this kind of situation, over a broad scope you have some real problems. That is why the Secretary is entertaining some of the deterrent, suggestions for the currency. When he makes up his mind he will make the announcement to those who are concerned and those are the reasons we are suggesting that some deterrents be put in.

Mr. ROYBAL. Mr. Akaka.

Mr. AKAKA. Thank you very much, Mr. Chairman.

Mr. Simpson, I want to say thanks to you and to your people for meeting with us in Honolulu when the committee went out.

Mr. SIMPSON. Thank you.

Mr. AKAKA. You provided us some very good information. This was after hours.

Mr. SIMPSON. You had a long day, sir.

PROTECTION OF FORMER PRESIDENT MARCOS

Mr. AKAKA. Of interest nationally to us, of course is the recent happening in Hawaii that has to do with President Marcos.

Mr. SIMPSON. Yes sir.

Mr. AKAKA. If it is not classified, can you tell us what you are providing out there?

Mr. SIMPSON. Yes sir, we can. As you know, Mr. Akaka, former President Marcos is located on Hickham Air Base. We are providing the security along with elements of the military at this point in time.

We are not sure exactly where President Marcos is going to reside. I don't think a decision has been made at this point in time. We are there because of the Presidential order. The President has a right under United States Code, Title 18, section 3056, to give protection to those others he decides need it, when he thinks it is in the national interest or is the right thing to do for obvious reasons.

We are having some difficulties, as you know. The Mayor has decided he doesn't want to help us with the security in the event that President Marcos moves outside. We are working to resolve that situation. The Governor has been very supportive and has tried to the best of his ability to introduce some logic into the whole discussion.

I am not at liberty to tell you exactly what some of the conversations were about regarding some of the areas that President

Marcos has at least entertained for his residence in the future. I think that there are meetings going on at the present time between the State Department and National Security Council, with the Philippino party. As a matter of fact, one is going on at the present time in Washington at the State Department, to see if some resolution to the total problem can be made. I am not suggesting that any resolution will come immediately. I just don't know at this present time. We are to provide protection for a reasonable period of time.

Mr. AKAKA. Let me ask the question before I yield to my friend, Mr. Hoyer, one that you partly touched on. How long are you going to provide this?

Mr. SIMPSON. For a reasonable period of time. I would be more than glad to give you the exact figure in executive session but I would prefer not to give it here.

REIMBURSEMENT TO LOCAL LAW ENFORCEMENT AGENCIES

Mr. AKAKA. Is there any way or practice that you do reimburse a local police force for helping with protection?

Mr. SIMPSON. We do not, sir. There is a law, which basically provides that you have to have 20 or more missions to an international organization i.e., the United Nations in New York, before Federal reimbursement is allowable. To the best of my knowledge at the present time, the only city that is receiving any reimbursement because of the formula is New York City.

I think there was some reimbursement when the conventions were held in several cities, but I think that money came from the Republican National Committee, or the Democratic National Committee. To the best of my knowledge, the only monies that have come by the Federal formula have been given to New York City. So we don't have any control over that, sir.

Mr. AKAKA. I have more questions, Mr. Chairman.

I would like to yield to Mr. Hoyer.

JAMES J. ROWLEY TRAINING CENTER

Mr. HOYER. I thank the gentleman for yielding. I am going over to Labor and Health committees, which is the AIDs hearing and Job Corps, but I wanted to be here. I have some other questions. Let me hone in on one particular interest of mine, and that is of course the training center.

Mr. SIMPSON. Yes sir.

Mr. HOYER. We have got $5 million in for 1986?

Mr. SIMPSON. Yes sir.

Mr. HOYER. I presume that was subject to 4.3 percent?

Mr. SIMPSON. Yes sir.

Mr. HOYER. We have got what, about $4,750,000?

Mr. SIMPSON. Yes sir.

Mr. HOYER. What do we need? Firstly, is there any money in this year's budget? We couldn't find it.

Mr. SIMPSON. No sir.

Mr. HOYER. That is why we couldn't find it.

Secondly, assuming that it is not, we want to continue to get toward this $18 million. What would be a reasonable figure for me to try to get in this year?

Mr. SIMPSON. Probably someplace between $3 and $4 million, maybe more than that. If I could get back to you.

The Secretary asked us to come back in based upon some changes that we had to make. For instance, we had to go for an alternate computer site which we didn't envision in the initial stages. We had to go, in fact, to the Beltsville, Maryland area because it gives us some things we need. There is a different electrical system that runs out in that area as opposed to the Washington, D.C. area, so it gives us some of those types of things you would need in an alternate site. By virtue of that, we had to go back in and get the consultants and engineers to go back over and present another picture so that we would be legitimate, and the rest of the people would be satisfied with what we are doing. Everything is fine now, we hope to get this thing rolling here in the not too distant future, Mr. Hoyer, but if I could get back to you, sir.

Mr. HOYER. Mr. Berry is replacing Mr.——

Mr. SIMPSON. Yes sir.

Mr. HOYER. Who worked very closely with this.

Mr. SIMPSON. Yes sir.

Mr. HOYER. If you will get us the information, we will follow it. The committee has been very supportive, the chairman has been very supportive, both the minority and majority side have been supportive. I think we would like to move forward on that.

Mr. SIMPSON. Mr. Hoyer and the members of the committee, I am very lucky to have the opportunity to be a witness before this type of committee, who you can talk to and who understand when you talk to them and try to the best of their abilities, based upon an awful lot of factors that none of us create, to do the best they can for everybody and in speaking for the Secret Service and certainly for myself, I couldn't thank you any more.

Mr. HOYER. Thank you.

I thank the gentleman for yielding. I will go over to our other committees.

Mr. SIMPSON. Thank you, sir, very much.

COUNTERFEITING

Mr. AKAKA. I would like to continue with the questions on counterfeiting. I understand that $62 million of counterfeiting was in 1985, about $7 million was found in the system.

Mr. SIMPSON. Yes sir.

Mr. AKAKA. What is the estimate of the amount of currency that has entered the stream of money in our country?

Mr. SIMPSON. You are talking about counterfeit, sir?

Mr. AKAKA. Yes.

Mr. SIMPSON. We get 90 percent of it before it gets to the public. As I mentioned to the Chairman, just in the initial stages we were able to seize 104 plants this year, which is the second highest in our history.

Mr. AKAKA. Do I understand there has been a relative decline in activities?

Mr. SIMPSON. It is cyclical. It goes up and down. It is hard to project it out precisely. You have a year where you might get a little more, $70 or $80 million counterfeit. We are still seizing 90 percent or more of it before it gets to the public. Then there are years like this year, in 1985, where you would be down in the $60 million plateau and we get 90 percent.

It is hard to say. It has little or nothing to do with the economy. For instance, we are enjoying in many respects some good times, and counterfeiting is still there. It is always there, no matter what happens.

Mr. AKAKA. Can you identify any reason why that has occurred?

Mr. SIMPSON. No sir, it is really difficult. Sometimes it has to do with people who are let out of penal institutions. Recidivism has to be one of the great traits of a counterfeiter. Usually once a counterfeiter always a counterfeiter. After he gets out he waits a little while and then gets back into it. It might be an up and down type of thing.

WHITE HOUSE SECURITY

Mr. AKAKA. In driving by the White House I noticed all the new construction. Also, I looked at the buildings that surround the White House on the other side of Lafayette Square as well as on the Treasury Building side.

Mr. SIMPSON. Yes sir.

Mr. AKAKA. How do you ensure security for the White House from the nonfederal buildings?

Mr. SIMPSON. We have what we call patrols. We patrol the area rather vigorously. We have an excellent relationship with all the surrounding building management. We have contacts in each and every building. They let us know of anything strange or untoward taking place.

For instance, on the Fourth of July of last year, people who own the Hay Adams were going to have a party on their roof and they called us immediately and told us they would be up on the roof, so we sent somebody up to make sure that everything was fine.

Again, we patrol the area very vigorously to make sure nothing untoward is happening in the area. We feel under the circumstances, you have to have, and want to have, a relatively open society, based upon that particular wish for all of us by all of us. We have to do things that will give us at least the comfort of knowing that we are doing the very best we can in the area, and I think we have got a pretty good handle on everything that goes on in our area.

TERRORISM

Mr. AKAKA. There is no question about our concern about terrorism around the world. Sometimes in the Pacific we feel a little safer, but I don't know how long that is going to last.

Mr. SIMPSON. If I could use an analogy, I don't want to be morbid, but I think the Swedes thought that their society was one where what happened could never happen in their society, and I would caution everybody that we are living in a strange world. We are living in a world where people are able to travel from one continent

to another in a matter of hours. They bring to wherever they happen to go their philosophies, whether it is the philosophy of terrorism or whether it is a philosophy of "I am going to get back at whomever". Unfortunately, none of us can plan enough in my opinion. The whole point of this is to make sure that you plan enough so it doesn't happen, and you try to interdict it before terrorist attacks ever really can get off the ground.

That is why the chairman asked the question and that is why it is so important that we have counterterrorism funding. We were getting to the point where we were really being able to get information and to make plans to interdict them before they could do anything. That is so important in the fight against terrorism—get it before it starts.

Mr. AKAKA. The Rand Corporation completed a study on the future cost of the international terrorism. Can you give us some of the highlights of that and what the response of the Secret Service is to that study?

Mr. SIMPSON. I have not read the Rand report, Mr. Akaka. I can give you my own personal feelings. I don't know the cost, but I imagine it is extremely expensive. I would suggest that when something of the magnitude of an assassination occurs like what happened in Sweden, unfortunately, the reverberations caused by something like that are hard to put a price tag on. I don't know what it caused in the financial structure of Sweden, but I am sure it caused some type of momentum there. I am sure it wasn't positive.

What we need to do is to plan to stop it before it begins, to make sure that we are in the best possible position to do the things that are necessary in the initial stages of a terrorist type of environment—that being that you need intelligence badly. The chairman asked the question, "Are we getting cooperation from the Federal Bureau of Investigation and from the agencies?" You need that kind of intelligence, you need to have a planning mechanism where you put into effect programs that if something happens this is what you are going to do. Hopefully you will be able to get it before it happens.

We work very closely, for instance, with Customs, and with all of the other agencies who would have any reason to be in the area of fighting terrorism. We try to get all the information together, use our analysts to plan whatever it is that we are going to use to thwart terrorism as far as our responsibilities are concerned, and sometimes we are accused of overkill. But, I would rather be more cautious in preventing something from happening than less cautious and suffer the consequences.

So I guess the answer to your question is yes, Mr. Akaka, it is very costly in our opinion. We want to plan for the worst and hope for the best.

Mr. AKAKA. Well, as a final request, will you provide the committee with a copy of the executive summary on this Rand Study?

Mr. SIMPSON. Yes sir.

Mr. AKAKA. If it is not classified.

Mr. SIMPSON. Yes sir.

Mr. AKAKA. Thank you.

[The information follows:]

THE FUTURE COURSE OF INTERNATIONAL TERRORISM[1]

International terrorism emerged as a problem in the late 1960s and despite increased government efforts to combat it, terrorism remains a serious problem in the 1980s. Will terrorism continue? Yes.

Political violence in one form or another has existed for centuries. Earlier waves of terrorist violence at the beginning of the century and again in the 1920s and 1930s were eclipsed only by world wars.

Terrorist activity accompanied post-war decolonization, which continued up through the 1960s. Some of the colonial liberation movements, most notably the Algerian FLN, provided a model for later terrorist groups.

Modern theories of guerrilla war--which, of course, is not synonymous with terrorism but did contribute doctrinally to the use of terrorist tactics--developed during this same period, from the late 1940s to the early 1960s. World War II represented the culmination of state-organized violence. Since then, there has been a long range trend toward the "privatization" of violence.

All of these facts argue for the continuation of some kind of political violence outside of conventional warfare, but will international terrorism persist in its present form? I think it will, for a number of reasons:

International terrorism as we know it today had its origins in the political circumstances that prevailed at the end of the 1960s: the frustration of the Palestinian Arabs after Israel's crushing defeat of the Arab armies in 1967; the failure of Latin America's guerrillas to duplicate the success of Castro's revolution in Cuba and their increasing attention to the struggle in the cities, which led to the increasing use of terrorist tactics; the war in Vietnam, which galvanized a generation of youth in America, Western Europe, and Japan

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[1]This paper was presented by the author to the International Conference on Current Trends in World Terrorism, Tel Aviv, Israel, July 1-4, 1985.

to protest in the streets, and resulted in a few at the extremist fringe carrying on the protest with guns and bombs.

But, contemporary international terrorism also reflected some recent technological developments which enhanced the use of terrorist tactics:

- Modern air travel provided unprecedented worldwide mobility.
- Radio, television, and communications satellites provided almost instantaneous access to a worldwide audience.
- Weapons and explosives became increasingly available to anybody with the money to buy them.
- Modern society offered new vulnerabilities, in particular, airplanes.

Political circumstances may change but these technological developments have permanently altered the environment.

The first generation of modern terrorists has provided a model of behavior. Terrorist tactics have become a routine way of focusing attention on a dispute, of bringing pressure on a government. New causes and new groups have emerged--Armenian terrorists, Sikh terrorists, issue-oriented groups opposed to nuclear power, abortion, technology, pollution, animal vivisection. There certainly will be no lack of causes.

There are economic incentives to use terrorist tactics. Kidnapping and extortion based upon threats of violence have become routine means of financing revolutionary movements.

A semi-permanent infrastructure of support has emerged. Beneath the terrorist groups, and supporting them often without regard to ideology or cause, is an ephemeral but resilient network of connections, alliances, safe houses, arms suppliers, and provisioners of counterfeit documents and other services. This network resembles the infrastructure that supports organized crime.

States have recognized in terrorism a useful weapon and are exploiting it for their own purposes. To a certain extent, international terrorism has become institutionalized.

And, increasingly, terrorism is expected and "tolerated."

All these reasons suggest that terrorism as we know it now is likely to persist as a mode of political expression for various groups, and as a means of warfare among states. It probably will continue, but at what level? Will we see more or less terrorism?

Measured by the number of incidents, terrorism has increased in volume over the last 17 years. It is a ragged increase, with peaks and valleys, but the overall trajectory is clearly upward. There were, for example, four times as many incidents of international terrorism in 1984 as there were in 1972, the year of the Munich attack. Insofar as we can tell, the increase is genuine--it is not due merely to better reporting. The increase in the late 1970s and the early 1980s was quite dramatic. Terrorist activity, according to our figures, leveled off in 1984, but based upon the figures from the first five months of this year, it looks as if 1985 will surpass all previous years in the volume of activity.

Overall, the annual growth rate in the volume of terrorist activity has been in the area of 12 to 15 percent. If that rate of increase continues, we could see something between 800 and 900 incidents a year by the end of the decade, which is not inconceivable given the other factors I have mentioned.

There are several other factors which suggest the likelihood of continued growth:

1. The increase in the volume of terrorist activity has been matched by its geographic spread--a slow, long-term trend. The number of countries experiencing some sort of terrorist activity each year has gradually increased.
2. Although a handful of nations--the United States, France, Israel, the United Kingdom, and Turkey--remain the favorite targets of terrorists and account for approximately half of all the victims, the number of nations targeted by terrorists has also increased. Last year, we saw terrorist attacks directed against the nationals of 60 countries.

3. Although it is difficult to monitor with any precision the appearance and disappearance of the many hundreds of groups that claim credit for terrorist actions--some of them are only fictitious banners--the level of international terrorist activity no longer appears to depend on a handful of groups. Despite the virtual destruction of some terrorist groups and the decline in operations by others, the total volume of terrorist activity grows.
4. As international communications spread, as populations move or are pushed about--two features of the 1980s--I suspect we may see more local conflicts manifesting themselves at the international level through terrorist tactics.

Will terrorists escalate? Simply killing a lot of people has seldom been a terrorist objective. As I have said on numerous occasions, terrorists want a lot of people *watching*, not a lot of people *dead*. Terrorists operate on the principle of the minimum force necessary. They find it unnecessary to kill many, as long as killing a few suffices for their purposes.

Statistics bear this out. Only 15 to 20 percent of all terrorist incidents involve fatalities; and of those, two-thirds involve only one death. Less than 1 percent of the thousands of terrorist incidents that have occurred in the last two decades involve 10 or more fatalities, and incidents of mass murder are truly rare.

Arbitrarily taking 100 deaths as the criterion, only a handful of incidents of this scale have occurred since the beginning of the century. Lowering the criterion to 50 deaths produces a dozen or more additional incidents. To get even a meaningful sample, the criterion has to be lowered to 25. This in itself suggests that it is either very hard to kill large numbers of persons, or it is very rarely tried.

Unfortunately, as we have seen in recent years, things are changing. Terrorist activity over the last 20 years has escalated in volume *and* in bloodshed. At the beginning of the 1970s, terrorists concentrated their attacks on property. In the 1980s, according to U.S. government statistics, half of all terrorist attacks have been directed

against people. The number of incidents with fatalities and multiple fatalities has increased. A more alarming trend in the 1980s has been the growing number of incidents of large-scale indiscriminate violence: huge car bombs detonated on city streets, bombs planted aboard trains and airliners, in airline terminals, railroad stations, and hotel lobbies, all calculated to kill in quantity. Ten major international terrorist incidents have resulted in a total of more than 1000 deaths in the last 15 years, but more than two-thirds of these have occurred in the last two years.

There are several explanations for the escalation:

1. Like soldiers in a war, terrorists who have been in the field for many years have been brutalized by the long struggle; killing becomes easier.
2. As terrorism has become more commonplace, the public has become to a degree desensitized. Terrorists can no longer obtain the same amount of publicity using the same tactics they used 10 years ago, and they may feel compelled to escalate their violence in order to keep public attention or to recover coercive power lost as governments have become more resistant to their demands.
3. Terrorists have become technically more proficient, enabling them to operate on a higher level of violence.
4. The composition of some terrorist groups has changed as the faint-hearted who have no stomach for indiscriminate killing drop out or are shoved aside by more ruthless elements.
5. The religious aspect of current conflicts in the Middle East pushes toward mass murder. As we have seen throughout history, the presumed approval of God for the killing of pagans, heathens, or infidels can permit acts of great destruction and self-destruction.
6. And finally, state sponsorship has provided terrorists with the resources and technical know-how to operate at a higher, more lethal level of violence.

At the same time, several factors work against escalation: There are self-imposed constraints, which I will address later, and there are technical ceilings. Without resorting to more exotic weapons, terrorists are approaching limits to their violence. The deadliest terrorist incidents--huge bombs detonated in buildings, the bomb presumably detonated aboard the Air India jumbo jet, a deliberately set fire in a crowded Teheran theater--each of which produced several hundred deaths, roughly equal the worst accidental disasters: hotel fires, explosions, airline crashes. Death on a larger scale is seen only in the slaughter of great battles or in natural disasters like earthquakes and floods. The most plausible scenarios involving chemical or biological weapons in a contained environment--a hotel, a convention, a banquet--would produce deaths in the hundreds. To get above that, terrorists would have to possess large quantities of deadly substances and solve problems of dispersal, or they would have to resort to nuclear weapons. But this raises questions of technical capacity and intentions, which I will deal with momentarily.

A third limiting factor is security. Protective measures taken in the wake of the huge car and truck bombings in the Middle East are reducing the vulnerability of the most obvious targets to this type of attack. More stringent security measures may be applied on a permanent basis to prevent a repeat of the Air India bombing. Of course, terrorists can obviate these by shifting their sights to other, still vulnerable targets, but security measures force them to become even less discriminate.

On balance, it appears that incidents involving significant fatalities probably will become more common, with incidents resulting in hundreds of deaths remaining for the foreseeable future the outer limit of terrorist violence.

What changes will we see in terrorist tactics? I don't think we will see much tactical innovation. Terrorists operate with a fairly limited repertoire. Six basic tactics have accounted for 95 percent of all terrorist incidents: bombings, assassinations, armed assaults, kidnappings, hijackings, and barricade and hostage incidents. Looking at it another way, terrorists blow up things, kill people, or seize

hostages. Every terrorist incident is merely a variation on these three activities.

There have been few changes in tactics over the years. Indeed, the relative percentage of the various tactics has remained stable for a number of years, except for a decline in barricade and hostage incidents. Seizing embassies was a popular tactic in the 1970s. It declined as security measures made embassy takeovers more difficult, and as governments became more resistant to the demands of terrorists holding hostages and more willing to use force to end such episodes, thus increasing the hostage-takers' risk of death or capture.

This is indicative of the kind of innovation we are likely to see. Terrorists innovate in an incremental way to solve specific problems created by security measures. If one tactic ceases to work, they abandon it in favor of another one or merely shift their sights to another target. Since terrorists have virtually unlimited targets, they have little need for tactical innovation.

For example, how might terrorists respond to the new security measures aimed at protecting embassies against car bombs? Conceivably, they might resort to aerial suicide attacks, which are technically and physically more demanding. Or they might resort to standoff attacks, the traditional response to strong defenses. Or they might simply detonate large bombs at other, still vulnerable targets. This brings me to the next question.

What changes will we see in terrorist targets? The greatest advantage that terrorists have and will continue to have is a virtually unlimited range of targets. Terrorists can attack anything, anywhere, anytime, limited only by operational considerations: Terrorists do not attack defended targets; they seek soft targets. If one target or set of targets is well protected, terrorists merely shift their sights to other targets that are not so well protected.

Over the years, the range of targets attacked by terrorists has expanded enormously. They now include embassies, airlines, airline terminals, ticket offices, trains, railroad stations, subways, buses, power lines, electrical transformers, mailboxes, mosques, hotels, restaurants, schools, libraries, churches, temples, newspapers, journalists, diplomats, businessmen, military officials, missionaries, priests, nuns, the Pope, men, women, adults, and children.

There are a few things terrorists have not done. With the exception of a couple of minor episodes, they have not attacked nuclear reactors. With the exception of a few groups that have special maritime capabilities, terrorists have not gone to sea. They have not tried to hijack ships at sea or take over offshore platforms. Terrorists have blown up computers and set fires in data processing centers, but they have not tried to penetrate computers in any sophisticated fashion to disrupt or destroy data.

What will be the future targets of terrorism? Pretty much the same ones they prefer today:

- Representatives of governments and symbols of nations--notably, diplomats and airlines.
- Representatives of economic systems--corporations and corporate executives.
- Symbols of policies and presence--military officials.
- Political leaders (in the past 15 years, terrorists have killed, tried to kill, or have been reported on their way to kill Carrero Blanco, Aldo Moro, Lord Mountbatten, Anwar Sadat, the Pope, Ronald Reagan, Indira Gandhi, and Margaret Thatcher).

Will terrorists attack high-technology targets such as refineries, offshore platforms, or nuclear reactors? They already have, although in technically undemanding ways. Terrorists blown up pylons and transformers, sometimes causing widespread blackouts. Guerrillas in Latin America have frequently attacked electrical power grids as a means of waging economic warfare against governments. Less concerned with economic warfare, urban terrorists have attacked electrical energy systems to get attention, to protest government or corporate policies, or to indirectly disable nuclear power plants. Terrorist saboteurs have also attacked pipelines, oil tank farms, and refineries, again with the objective of attracting publicity or protesting specific policies. These targets will remain attractive to some groups. However, apparently not all terrorists see value in attacking energy systems. There is no discernible trend toward more frequent attacks. Moreover,

to seriously disrupt energy systems requires either a sustained campaign or larger-scale action at certain critical nodes. Targets such as nuclear reactors or offshore platforms are technically demanding and require certain knowledge and skills.

Overall, attacks on high-technology targets must be anticipated as a feature of guerrilla warfare, but they are likely to remain only an occasional event in the realm of terrorism. State sponsorship, however, may alter targeting preferences.

Will we see a more sophisticated "white collar" terrorism, that is, attacks on telecommunications, data processing systems, or other targets where the terrorists' objective is not crude destruction but widespread disruption? Disruptive "terrorism" of this type may be more appealing to armchair terrorists than to those who are active in today's terrorist groups. We may occasionally see terrorist incidents of this type, but probably not many. Such operations are technically demanding, and they produce *no immediate visible effects*. There is no drama. No lives hang in the balance. There is no bang, no blood. They do not satisfy the hostility of the terrorists.

What weapons will terrorists use in the future? Terrorists now use what is readily available in the gunshops and arsenals or on the black market. They seek powerful, rapid-fire, concealable weapons. They use commercial explosives, military stuff when they can get it. These suffice for current operations. Since terrorists generally do not attack defended targets, they have no need for more advanced arms. They now match the firepower of the authorities. They have no need for sophisticated weapons. Terrorists probably will use more sophisticated explosives, in larger quantities, although there is no great need to increase quantity. Terrorists in the Middle East have on several occasions built bombs containing more than a thousand pounds of explosives. Car bombs with 200 or more pounds of explosives are not uncommon. Fifteen to 20 pounds of Frangex planted inside a large building will take its front off.

We will probably see increased use of standoff weapons--mortars, rocket launchers, rocket propelled grenades--to overcome security measures. Finally, there remains a potential for the use of portable precision-guided munitions, which terrorists already have employed on several occasions.

Will terrorists resort to weapons of mass destruction? Will they employ chemical or biological warfare? Will terrorists go nuclear? Many people believe that nuclear terrorism of some sort is likely and may be inevitable. Reflecting the results of a poll conducted among 1,346 opinion leaders in the United States, George Gallup Jr., in his recent book, *Forecast 2000*, wrote that "while a war between the superpowers, the U.S. and the Soviet Union, is a real cause for concern, [a disastrous nuclear incident involving terrorists in this country] seems to be the most imminent danger."

I happen to think nuclear terrorism is neither imminent nor inevitable--if by nuclear terrorism we mean terrorists employing stolen nuclear weapons or a clandestinely fabricated nuclear explosive device to kill or threaten to kill large numbers of people. Lesser terrorist acts in the nuclear domain are possible--the seizure or attempted sabotage of a nuclear reactor, the dispersal of radioactive material, an alarming nuclear hoax that may cause panic.

The question of nuclear terrorism involves an assessment of both capabilities and motivations. It is conceivable that someone outside of government who is familiar with the principles of nuclear weapons could design an atomic bomb. However, the ease with which someone outside of government can build one, assuming he or she had somehow acquired the necessary nuclear material, has been great exaggerated. But let's for a moment say they can. Would they want to? Terrorism has certainly escalated, but it is still a quantum jump from the kinds of things that terrorists do today to the realms of nuclear destruction. Why would terrorists take that jump?

As I said before, simply killing a lot of people is not an objective of terrorism. Terrorists could do more now, yet they don't. Why? Beyond the technical constraints, there may be self-imposed constraints that derive from moral considerations or political calculations. Some terrorists may view indiscriminate violence as immoral. The terrorists' enemy is the government, not the people. Also, terrorists pretend to be governments, and wanton murder might imperil this image.

There are political considerations as well: Terrorists fear alienating their perceived constituents. They fear provoking public revulsion. They fear unleashing government crackdowns that their groups might not survive. Certainly, in the face of a nuclear threat, the rules that now limit police authorities in most democracies would change.

Terrorists must maintain group cohesion. Attitudes toward violence vary not only from group to group but also within a group. Inevitably, there would be disagreements over mass murder, which could expose the operation and the group to betrayal.

Obviously not all groups share the same operational code, and as we have seen, certain conditions or circumstances might erode these self-imposed constraints.

What about chemical or biological weapons, which are technically less demanding? Although there have been isolated incidents, neither chemical or biological warfare seems to fit the pattern of most terrorist attacks. These attacks are generally intended to produce immediate dramatic effects.

Terrorist incidents have a finite quality--an assassination, a bombing, a handful of deaths, and that is the end of the episode.

Finally, the terrorists retain control. That is quite different from initiating an event that offers no explosion but instead produces indiscriminate deaths and lingering illness, an event over which the terrorists who set it in motion would have little control. For the near-term future--say, the next five years--we are more likely to see threats of chemical or biological contamination made by authentic lunatics or criminal extortionists. There will be moments of alarm. Over the long-term--the next 10 to 15 years--my concern is that chemical weaponry will be acquired by unstable dangerous countries like Iraq, Iran, or Syria, and will increasingly be used in warfare. If chemical warfare becomes more commonplace, particularly in a region like the Middle East, we cannot dismiss its potential use by terrorists. The same is true of nuclear weapons, but probably over a longer time period.

Where will terrorism fit in the future of armed conflict? I think the current trend toward state sponsorship of terrorism will continue. As I have said before, limited conventional war, classic rural guerrilla, and international terrorism will coexist and may appear simultaneously. The Iranian revolution and its spread to Lebanon, which has involved the effective use of international terrorism as an instrument of policy, may provide a model for other Third World revolutions and revolutionary states, just as the Cuban model inspired a generation of imitators in Latin America. If it does, we are in for a lot of trouble.

- We also may see international terrorism emerge as a new kind of global guerrilla warfare in which terrorist groups sally forth from the political jungles of the Third World to carry out highly publicized hit-and-run attacks, militarily insignificant but politically of great consequence, avoiding confrontations where they might run into well-equipped, well-trained, specialized anti-terrorist forces.

Terrorists now avoid seizing embassies in Western capitals. They hijack airliners, keep them on the move to evade any rescue attempt, and retreat with their hostages to sanctuaries like Teheran or Beirut. Benefiting from the absence of government, as in Lebanon, or the presence of a hostile government, as in Iran, these sanctuaries lie beyond the reach of the world regime of treaty and law. If Iran defeats Iraq and the Gulf States fall, then the world's "badlands" might be centered in the Middle East, a crescent reaching from the Mediterranean to Persia.

Finally, what developments will we see in security? We will see an increased diversion of resources to internal security.

- The "privatization" of violence has been matched by the "privatization" of security, as illustrated by the tremendous growth of private sector security expenditures. In the United States, a total of $21 billion is now spent annually for

security services and hardware (as compared with $14 billion spent annually on all police). The figure will reach $50 to $60 billion a year by the end of the century. Private security corporations will grow to meet the demand.

We will see the further proliferation of inner perimeters, the rings of security that now surround airline terminals, government buildings, and, increasingly, corporate offices. From this last development, however, emerges a crude counter-terrorist strategy. By protecting the most obvious symbols, terrorists' preferred targets, terrorists will be forced to become less discriminate in their attacks. That will create greater public outrage, which governments can exploit to obtain domestic support and international cooperation to crush the terrorists.

In sum:

- Terrorism certainly will persist.
- Probably it will increase.
- Large-scale incidents will become more common.
- At the same time, I don't think terrorism will enter the mind-boggling world of high technology or mass destruction.
- In terms of tactics, targets, and weapons, terrorism will be for the foreseeable future a continuation of the past.
- States will continue to exploit terrorism--to use it for their own purposes. We may enter a protracted worldwide guerrilla war.
- And terrorists will create crises, forcing governments and corporations to divert more and more resources toward combatting them.

Mr. ROYBAL. Mr. Wolf.

EAST EXECUTIVE AVENUE CONSTRUCTION

Mr. WOLF. Thank you, Mr. Chairman.

Mr. SIMPSON. Good morning, Mr. Wolf. We are not doing anything on Pennsylvania Avenue.

Mr. WOLF. I want to welcome you and Mr. Keating. I notice "E" Street was closed today.

Mr. SIMPSON. Yes sir, they are putting in storm sewers and it is going to be closed for a week, from 9 a.m. to 4 p.m.

Mr. WOLF. You couldn't make a left hand turn.

Mr. SIMPSON. I knew you were going to ask that question.

RETIREMENT TAX LEGISLATION

Mr. WOLF. I am going to make one point, as I made with every witness, and just take a little bit of a different tact. You had mentioned that you were working closely with the CIA?

Mr. SIMPSON. Yes sir.

Mr. WOLF. You also work closely with the FBI?

Mr. SIMPSON. Yes sir.

Mr. WOLF. And I just want to read two things to you and then get your comment. As you know, I have been concerned with the three year basic recovery rule which the tax bill will wipe out. Its elimination would force a lot of federal employees to retire at the very time we don't want them to retire. You have a lot of good people at the Secret Service. The retirement program is one of the attractive parts of work for a certain portion of the Federal Government, so any time you begin to manipulate or change that you begin to affect a fundamental attraction of Federal employment.

I want to read two things. We sent a letter to agencies seeking information on the input of this proposal on their mission, and have been working on it for about a month and a half. Now, we also have data we have supplied to the Secretary the other day showing that we it doesn't earn any money. We will see if that data holds up.

Aside from that, we are looking at a morale problem and the efficiency of the government. Two of the comments were:

(1), from the CIA, Director of Personnel, the CIA has indicated "I can say our employees are keenly aware of this tax rule change and indications are a significant number would retire to avoid the changes. These are officers who would not otherwise be leaving at this time. The potential loss of experience in our intelligence cadre in the senior officer corps would require the premature evaluation and elevation of officers who would lack the desirable degree of experience to equip them to handle the added responsibility in this same manner as their predecessors," meaning they are going to lose people and replace them with individuals who are not as qualified to take their place.

FBI said the following:

"The FBI's ability to carry out its mission will be severely hampered if a substantial number of the employees eligible to retire do so, prior to July 1, 1986. A substantial number of employees retir-

ing at one time will result in a severe experience drain which will take several years to overcome."

Congressman Hoyer, Senator Trible, and myself sent this letter to Secretary Baker, also one to Rostenkowski and to the President. Now, I don't want to beat a dead horse, I know you are not setting policy on the tax annuity question, but can you tell me what would the impact of this be on the Secret Service and have you lost anybody? I would like your own comments?

Mr. SIMPSON. This year, Mr. Congressman, we have 189 agents eligible to retire. This is going to sound like a very presumptuous statement, but I have to make it anyway, because this has happened to us. Our people who are eligible to retire are sought after by private industry. So regardless of the tax bill, we would probably have 137 retiring based upon computations that we would make—that would retire regardless of whether there was a tax bill or not. We are assuming, guestimating, that based upon the fact there might be that particular portion in the tax bill, 183 would retire. So you are talking about 25 or 26 more than normal.

Non-agent types eligible to retire total 162.

We usually get, based upon the fact they have to retire because of age or whatever, roughly around 19 a year based upon experiences in the past, and probably because of the tax law, 25 this year. So, you are asking the wrong organization. I know that there are concerns in other organizations. We just don't feel the same kind of impact. I know what you are saying to me. It is hard for me to give you anything on that other than what I have said.

We usually lose people when they are eligible to retire, in our organization. Usually there are a couple of jobs out there that they go to, for a lot of reasons. They have kids that are ready to go to college and they can't make it on their salary, so they are trying to get two salaries, one being retirement and obviously that would get the kids through school.

Mr. WOLF. Twenty five additional agents will leave?

Mr. SIMPSON. Probably. I am guessing.

Mr. WOLF. Do you think that could have a significant impact?

Mr. SIMPSON. Any time you lose people it has a significant impact, but we adjust to it accordingly. We have plans that we put into effect. We have people that are in the pipeline which we are training continually to take over in the event somebody is sick and has to go out, or in the event that somebody retires. For instance, within the last several months, the former Deputy Director, Mr. Bechtle, who replaced our former Deputy Director Barton, was offered a job that he couldn't afford to turn down. So he just left and gave the proper notice. We are sorry he had to go, but he just had to go for economic reasons. This is the type of thing that we run into all the time.

We are a very small organization that really is a family both within and without. People out in the private sector call back when they have jobs available for those who are eligible to retire, asking if they want to go. So whether that particular proviso is in there or not won't make an awful lot of difference to us. I know it will make a difference to some other organizations, based upon conversations I have had.

Mr. WOLF. The record will show it will mean probably 25 more people?

Mr. SIMPSON. Yes, I think that is a good guess.

SUPPORT FROM OTHER FEDERAL AGENCIES

Mr. WOLF. Okay. What about with the FBI and CIA, if their effort were impaired would that have any bearing on you guys at all?

Mr. SIMPSON. Well, we are what we call an active consumer in the intelligence area and any time the product is not up to speed—I am not suggesting that it won't be—I am just saying if it isn't, yes, it would impact on us.

I just want to make the same point I made earlier. I don't know if you were here or not. We couldn't be any more satisfied with the product that is being given us by the agencies and by the Federal Bureau of Investigation.

Mr. WOLF. I understand and I appreciate the comments. The point I have been trying to make is I really feel I am almost becoming a broken record on this, but I feel very deeply about it. We are going to lose a lot of the top people, and I am hopeful that when the Secretary comes up—obviously I have spoken to him, he knows I will ask him the questions on Thursday—I just think it is an important issue that we should deal with out front, one you can deal with from the one or two points, one from the compensation. We have said it doesn't save even if it does bring in some additional revenue, you don't want to devastate the ability of your Federal Government to operate.

It is very, very important. We are trying to get people on record in the Department of the Treasury to say what impact this would have, so hopefully the Administration when it begins to negotiate will say this is not an appropriation that we are that excited about, let's try to make it somewhere else.

I want to thank you and commend you and your group. I think you have one of the best groups in the government. There are a lot of good ones, too, and I want to work with you.

Mr. SIMPSON. You always have. I know you are always very supportive of us as are the other members, and again, we thank you very much.

Mr. ROYBAL. Mr. Skeen.

Mr. SKEEN. Thank you, Mr. Chairman.

PAN-AMERICAN GAMES

Mr. SKEEN. Mr. Simpson, how much are we going to spend on the Service's protection during the Pan-American Games?

Mr. SIMPSON. Probably about a $1.5 million. That is a guess, Mr. Skeen. We tried to use the best possible records that we have, going back in history and trying to figure out just exactly what the level of protective activity would be, and we came up with $1.5 million. We might be a little bit over.

Mr. SKEEN. You have done a preliminary analysis on the costs of the Pan-American Games?

Mr. SIMPSON. Yes sir.

Mr. SKEEN. Thank you very much.

Thank you, Mr. Chairman.

PRESIDENTIAL ELECTION

Mr. ROYBAL. Mr. Akaka.

Mr. AKAKA. May I follow up on a question by Mr. Wolf. You expect to be losing about 168 plus 26 agents. How many of them will you be hiring or recruiting? Will you be replacing them?

Mr. SIMPSON. We hope to replace everybody. With the 1987 budget that we are asking for at the present time, we hope to hire a replacement for every one we lose.

Mr. AKAKA. Speaking about impact, in 1988, during the Presidential election, what would the impact be on that kind of protection?

Mr. SIMPSON. If we weren't able to hire these people?

Mr. AKAKA. That is right.

Mr. SIMPSON. It would be very, very difficult.

Mr. AKAKA. If you have those people replaced, what would the impact be?

Mr. SIMPSON. It depends upon the workload numbers.

One of the strange things is that we are pretty good prognosticators as far as determining how many people are going to run for the Presidency per year. I think we come relatively close, as close as anybody can. But at any rate, we went through and we made a pitch based upon the numbers that we thought were going to run for the Presidency. The Treasury supported us 100 percent. We went into the process with OMB and somehow they came up with a number of five candidates. Now, I am not a betting man, but I would be willing to bet my next year's salary that there will be more than five candidates running for the Presidency in 1988. So I don't know where they came up with that.

They cut us back about $5 million, which we need in order to train some of the people we are going to have to borrow from the other agencies. You have to be up on target as far as equipment is concerned. You have to do it a year ahead of time, and of course, you have travel expenses when you bring people in to train them and that type of thing. So I hope they are correct. I doubt very much if they are on that point.

To answer your question, I think Gramm-Rudman has caused everybody to have a bit of deja vu as far as everything is concerned. One of the things that we all have had to do was slow down any recruitment, holding up on hirings at this point in time. We do strategic hiring. If we need an expert in an area, we will hire him. If we can wait we do.

Now, that has some debilitating effects, because you ask people to work more and that tires them out. So we are hoping and we are praying that 1987 will give us the amount of money that we are budgeting for and maybe some small additions, if the committee sees fit. Then we will be up to speed and able to do the usual good job as far as the 1988 campaign is concerned.

Mr. AKAKA. Well, thank you very much, Mr. Simpson.

Mr. SIMPSON. You are welcome.

EQUAL EMPLOYMENT OPPORTUNITY

Mr. ROYBAL. One last thing with regard to employment. You told the committee that 29.9 percent of the personnel of the Secret Service are members of minority groups?

Mr. SIMPSON. Yes sir, that reflects Special Agent hirings in Fiscal Year 1985, sir.

Mr. ROYBAL. I wanted to clarify whether or not that was the percentage of the present work force or whether that is a percentage——

Mr. SIMPSON. That is the percentage over the last year.

Mr. ROYBAL. What is the overall percentage now?

Mr. SIMPSON. I will have to get that specific number.

Mr. ROYBAL. Will you also provide then for the record not only that specific number, but the number of women in the organization?

Mr. SIMPSON. Yes sir.

[The information follows:]

The percentage of female and minority staff on board as of September 30, 1985 is as follows:

MINORITY STATISTICS

	Minority males	Minority females	White females	Total
Agents	8.3	.4	3.3	12.0
Uniformed division officers	17.2	1.8	4.7	23.7
Other	9.4	20.5	36.0	65.9

The total percentage of female and minority staff on board as of September 30, 1985 is as follows:

	Percent
Minority males	10.6
Minority female	7.1
White female	14.0

As of September 30, 1985 there were 894 women employed by the Secret Service.

Mr. ROYBAL. Remember, we had a discussion several years ago with regard to women?

Mr. SIMPSON. We have done much better, thanks to your admonition.

Mr. ROYBAL. I would like to know how much better we are doing.

Mr. SIMPSON. Unfortunately, we lose them to marriage and other things, sir.

Mr. ROYBAL. That is one of the problems.

Mr. SIMPSON. You have these handsome looking men and handsome looking ladies that steal them off of you.

Mr. ROYBAL. I would like to thank you and your colleagues for your testimony this morning.

Mr. SIMPSON. Thank you, Mr. Chairman.

We thank the committee very much.

[The justifications follows:]

U. S. Secret Service, Salaries and Expenses

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1986
(Dollars in thousands)

	Permanent Positions	Average Positions	Amount
FY 1986 Appropriation (Continuing Resolution) Enacted by Congress (Public Law 99-190).....	4,325	4,279	$294,000
Adjustments:			
(1) Gramm-Rudman-Hollings Act (Public Law 99-177).....	---	---	-12,642
(2) Additional Positions Authorized by the Office of Management and Budget.....	30	30	---
Proposed Authorized Level for Fiscal Year 1986.....	4,355	4,309	$281,358
Estimate, Fiscal Year 1987.....	4,355	4,309	$307,140

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1987

	Appropriation FY 1985		Authorized Level FY 1986		Budget Estimate FY 1987		Total Changes		Increase or Decrease (-) for 1987 Program Changes		Other Changes	
	Avg. Pos.	Amount	Avg. Pos.	Amount	Avg. Pos.	Amount	Avg. Pos.	Amount	Avg. Pos.	Amount	Avg. Pos.	Amount
1. Suppression of counterfeiting, thefts and frauds relating to Treasury electronic fund transfers, debit and credit card fraud, computer fraud, food coupon fraud, government identification fraud, investigating check and bond forgeries, protection of individuals, buildings and grounds, and safeguarding Government securities.....	4,265	$288,056	4,309	$294,000	4,309	$307,140	---	$ 13,140	---	$ 16,537	---	$ -3,397
2. Payments to State and local governments for protection of foreign diplomatic missions under extraordinary circumstances.....	---	1,122	---	3,017	---	---	---	-3,017	---	---	---	-3,017
3. Other security programs.....	---	1,114	---	4,050	---	---	---	-4,050	---	---	---	-4,050
Unobligated balance.....	---	7,671	---	---	---	---	---	---	---	---	---	---
Gramm-Rudman-Hollings (P.L.99-177)	---	---	---	-12,642	---	---	---	12,642	---	---	---	12,642
Available for obligation from prior year appropriation.....	---	-5,254	---	-7,067	---	---	---	7,067	---	---	---	7,067
Total appropriation, authorized level and budget estimate.....	4,265	$292,649	4,309	$281,358	4,309	$307,140	---	$ 25,782	---	$ 16,537	---	$ 9,245
Permanent positions established..	(4,325)	---	(4,355)	---	(4,355)	---	---	---	---	---	---	---

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U. S. Secret Service,
Salaries and Expenses

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987
(Dollars in thousands)

	Activity 1			Activity 2			TOTAL		
I. INCREASES REQUIRED FOR FISCAL YEAR 1987	Pos.	Avg. Pos.	Amount	Pos.	Avg. Pos.	Amount	Pos.	Avg. Pos.	Amount
A. Program Changes									
1. Technical security program	---	---	2,200	---	---	---	---	---	2,200
2. Candidate and nominee program	---	---	5,652	---	---	---	---	---	5,652
3. Pan American games	---	---	1,508	---	---	---	---	---	1,508
4. Protective requirements	---	---	500	---	---	---	---	---	500
5. ALP programs	---	---	4,283	---	---	---	---	---	4,283
6. Communications program	---	---	1,580	---	---	---	---	---	1,580
7. Protective support	---	---	114	---	---	---	---	---	114
8. Armored limousines	---	---	700	---	---	---	---	---	700
Total, Program Changes	---	---	16,537	---	---	---	---	---	16,537
B. Increases Necessary to Maintain Current Levels:									
1. Increased cost of non-GSA leases and non-GSA provided services	---	---	54	---	---	---	---	---	54
2. Increased cost of replacement vehicles	---	---	172	---	---	---	---	---	172
3. Increased cost of rent payments	---	---	107	---	---	---	---	---	107
4. Increased cost of GSA provided services	---	---	311	---	---	---	---	---	311
5. Government share of health insurance	---	---	390	---	---	---	---	---	390
6. Support services and facilities	---	---	400	---	---	---	---	---	400
7. FTS and other communications	---	---	1,800	---	---	---	---	---	1,800
8. Increased cost of travel	---	---	1,294	---	---	---	---	---	1,294
9. Increased cost of postage	---	---	49	---	---	---	---	---	49
10. Maintenance of James J. Rowley training center	---	---	221	---	---	---	---	---	221
11. Increased cost of payroll/personnel systems	---	---	21	---	---	---	---	---	21
12. Increased cost of printing and reproduction	---	---	26	---	---	---	---	---	26
13. Restoration of Gramm-Rudman-Hollings Act (P.L. 99-177)	---	---	12,642	---	---	---	---	---	12,642
Total, Increases Necessary to Maintain Current Levels	---	---	17,487	---	---	---	---	---	$17,487
Total, Increases Required for Fiscal Year 1987	---	---	$34,024	---	---	---	---	---	$34,024

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U. S. Secret Service,
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SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987
(Dollars in thousands)

	Activity 1			Activity 2			TOTAL		
	Pos.	Avg. Pos.	Amount	Pos.	Avg. Pos.	Amount	Pos.	Avg. Pos.	Amount
II. REDUCTIONS, NON-RECURRING COST AND SAVINGS:									
1. Reduction to the equipment base.....	---	---	-4,582	---	---	---	---	---	-4,582
2. Program Reduction.....	---	---	-3,660	---	---	---	---	---	-3,660
Total, Reductions, Non-recurring Costs and and Savings	---	---	-8,242	---	---	---	---	---	-8,242
Total Increase or Decrease FY 1987 Compared with Proposed Authorized Level for FY 1986	---	---	25,782	---	---	---	---	---	25,782

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U. S. Secret Service, Executive Summary

FISCAL YEAR 1986

The Secret Service appropriation, as approved by Congress in the Continuing Resolution (P.L. 99-190) totals $294,000,000, 4,325 permanent and 4,279 full-time-equivalent positions. The adjustments to that appropriation include (1) the Gramm-Rudman-Hollings Act (P.L. 99-177) and (2) additional unfunded positions authorized by the Office of Management and Budget.

PROPOSED ADJUSTMENTS:

(1) Gramm-Rudman-Hollings Act (P.L. 99-177) -- In keeping with the Administration's goal of reducing the Federal budget deficit by freezing spending in Fiscal Year 1986, the budget for the Secret Service proposes an appropriation level of $294,000,000, the amount authorized in the Continuing Resolution less $12,642,000 for the 4.3 percent Gramm-Rudman-Hollings reduction, or $281,358,000.

To achieve this reduction, the Service plans the following:

- Selective hiring practices for filling positions vacated through attrition will be implemented.
- Reduction to the number of planned permanent changes of station, limiting such authorizations only to relocations necessitated to staff managerial vacancies
- Across-the-board reduction to tuition and education budget
- Across-the-board reduction to office and technical supplies purchases
- Reduction in planned purchase of ammunition used by law enforcement personnel in training exercises/requalification
- Reduction in the planned replacement/replenishment of Uniformed Division uniforms/foul weather gear
- Cancellation of entire order for the replacement of law enforcement sedans, with the exception of a small number of commitments already made

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- A reduction to the amount budgeted for the voice privacy program
- Across-the-board reduction to amounts allocated to recurring equipment needs, in the category of orders costing less than $25,000

(2) Additional Positions Authorized by the Office of Management and Budget -- In addition to the 4,325 permanent positions and the 4,279 full-time-equivalent positions approved in the Continuing Resolution, the Office of Management and Budget authorized 30 permanent and full-time-equivalent positions, without associated funding. This increases our position level to 4,355 permanent and 4,309 full-time-equivalent positions for Fiscal Years 1986 and 1987.

FISCAL YEAR 1987

In Fiscal Year 1987, the Secret Service will return to a normal level of operation by restoring the 4.3 percent reduction imposed by the Gramm-Rudman-Hollings Act in Fiscal Year 1986. The Fiscal Year 1987 budget totals $307,140,000, 4,355 permanent and 4,309 full-time-equivalent positions. (30 full-time-equivalent positions are unfunded)

The program increases in Fiscal Year 1987 total $16,537,000 which includes:

- $2,300,000 for increases in Technical Security
- $5,652,000 for the Candidate and Nominee Program
- $1,508,000 for the Pan American Games
- $500,000 for Protective Requirements
- $4,283,000 for increases in the ADP Program
- $1,580,000 for increases in the Communications Programs
- $114,000 for Protective Support
- and $700,000 for two armored limousines.

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U. S. Secret Service, Executive Summary

The increases necessary to maintain our current level of operation in Fiscal Year 1987 total $17,487,000, which includes $4,845,000 requested for inflationary increases and a $12,642,000 restoration of the Gramm-Rudman-Hollings reduction in Fiscal Year 1986. Included in the $4,845,000 is

- $54,000 for the increased cost of Non-GSA leases and Non-GSA provided services
- $172,000 for the increased cost of replacement vehicles
- $107,000 for the increased cost of rent payments
- $311,000 for the increased cost of GSA provided services
- $390,000 for the Government's share of health insurance
- $400,000 for the increased cost of support services and facilities
- $1,800,000 for the increased cost of FTS and Other Communications
- $1,294,000 for the increased cost of travel
- $49,000 for the increased cost of postage
- $221,000 for maintenance of James J. Rowley Training Center
- $21,000 for the increased cost of payroll/personnel systems
- $26,000 for the increased cost of printing and reproduction.
- Again, $12,642,000 is for the restoration of reductions imposed by the Gramm-Rudman-Hollings Act (P.L. 99-177) in Fiscal Year 1986.

This budget also includes reductions of $-8,242,000 as follows:

- $-4,582,000 to reduce our equipment base
- and $-3,660,000 to reduce counterterrorism funding received in Fiscal Year 1986.

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U. S. Secret Service, Salaries & Expenses

SUMMARY JUSTIFICATION OF FISCAL YEAR 1987 BUDGET ESTIMATE

GENERAL STATEMENT

The United States Secret Service is charged with the following responsibilities: Protection of the President of the United States, members of their immediate family, the President-elect, the Vice-President or other officer next in the order of succession to the Office of President, and the Vice-President-elect, and members of their immediate families, unless the members decline such protection; protection of the person of a visiting head of a foreign state or foreign government and, at the direction of the President, other distinguished foreign visitors to the United States and official representatives of the United States performing special missions abroad; the protection of persons who are determined to be major Presidential or Vice Presidential candidates unless such protection is declined; upon request of a Presidential or Vice Presidential candidate of a major political party, as determined by the Secretary after consultation with the advisory committee, the Secretary may authorize the U. S. Secret Service to furnish protection to the spouse of such major Presidential or Vice Presidential candidate, except that such protection shall not commence more than one hundred twenty days prior to the general Presidential election; the protection of the person of a former President and their spouse during their lifetime, the protection of the person of a spouse of a former President until their death or remarriage, and minor children of a former President until they reach sixteen years of age, unless such protection is declined; the detection and arrest of persons engaged in counterfeiting, forging or altering of any of the obligations or other securities of the United States and foreign governments; the investigation of thefts and frauds relating to Treasury electronic fund transfers; fraudulent use of debit and credit cards, fraud and related activity in connection with government identification documents; computer fraud; food coupon fraud; the investigation of personnel, tort claims, and other criminal and non-criminal matters as directed by the Secretary of the Treasury in protection of the Executive Residence and grounds and buildings in which the White House offices are located; the protection of the temporary official residence of the Vice President and grounds in the District of Columbia; the protection of foreign diplomatic missions in the Washington metropolitan area and such areas in the United States, its territories and possessions, as the President may direct on a case-by-case basis; protection of foreign diplomatic missions located in metropolitan areas (other than the District of Columbia) in the United States where there are located twenty or more such missions headed by full-time officers, except that such protection shall be provided only (A) on the basis of extraordinary protective need, (B) upon request of the affected metropolitan area, and (C) when the extraordinary protective need arises in association with a visit to or occurs at a permanent mission to an international organization of which the United States is a member or an observer mission invited to participate in the work of such organization: provided, that such protection may be extended to places of temporary domicile in connection with such a visit; and the protection of currency and other Government obligations that are contained in the Main Treasury Building and its Annex in Washington, D.C.

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UNITED STATES SECRET SERVICE

Federal Funds

General and special funds:

Salaries and Expenses

For necessary expenses of the United States Secret Service, including purchase (not to exceed three hundred and forty-three vehicles for police-type use for replacement only) and hire of passenger motor vehicles; hire of aircraft; training and assistance requested by State and local governments which may be provided without reimbursement; services of expert witnesses at such rates as may be determined by the Director; rental of buildings in the District of Columbia, and fencing, lighting, guard booths, and other facilities on private or other property not in Government ownership or control, as may be necessary to perform protective functions; the conducting of and participating in firearms matches and presentation of awards and for travel of Secret Service employees on protective missions without regard to the limitations on such expenditures in this or any other Act: Provided, That notice thereof is transmitted to the House and Senate Committees on Appropriations; for repairs, alterations and minor construction at the James J. Rowley Secret Service Training Center; and for research and development; not to exceed $7,500 for official reception and representation expenses; for uniforms without regard to the general purchase price limitation for the current fiscal year; $307,140,000 of which $500,000 shall remain available until expended. (3 U.S.C. 202, 203a; 5 U.S.C. 301; 18 U.S.C. 3056.)

Explanation of Language Changes

The phrase "notice thereof is transmitted to" has been subsituted for the phrase "approval is obtained in advance from" which was included in the previous language for FY 1986 with regard to the travel of Secret Service employees.

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U. S. Secret Service, Salaries and Expenses

SELECTED WORKLOAD DATA

Activities and Principal Workload Factors		1985 Actual	1986 Estimate	1987 Estimate	Percent Increase or Decrease (1987 over 1986)
Cases Pending Beginning of Year	Counterfeit Cases	3,848	3,441	3,400	
	Check Cases	65,270	53,453	43,500	
	Bond Cases	9,285	7,714	7,700	
	Protective Research	1,755	1,416	1,400	
	Other Criminal & Non-Criminal	19,633	37,562	37,600	
	Total	99,791	103,586	93,600	-9.64%
Cases Received	Counterfeit Cases	17,307	18,000	19,000	
	Check Cases	92,373	100,000	100,000	
	Bond Cases	5,420	10,000	10,000	
	Protective Research	13,129	14,000	15,000	
	Other Criminal & Non-Criminal	80,413	85,000	90,000	
	Total	208,642	227,000	234,000	+3.08%
Totals to be Investigated		308,433	330,600 1/	327,600	- .91%
Cases Closed	Counterfeit Cases	17,189	18,000	19,000	
	Check Cases	101,360	110,000	110,000	
	Bond Cases	6,502	10,000	10,000	
	Protective Research	13,426	14,000	15,000	
	Other Criminal & Non-Criminal	60,445	85,000	90,000	
	Total	198,922	237,000 2/	244,000 2/	+2.95%

NOTE: Investigations received in the Other Criminal and Non-Criminal categories increased from 52,786 in Fiscal Year 1984 to 80,413 during Fiscal Year 1985. The tremendous increase in these categories of investigations represents the reclassification of certain types of check forgery investigations to fraud, embezzlement, and misrepresentation investigations, and is also due to our new jurisdiction involving food coupon fraud, electronic fund transfer fraud, credit and debit card fraud, government identification fraud and computer fraud investigations.

1/Rounded

2/The chart reflects an increase in the number of cases closed each fiscal year, however many of these cases will be closed, uninvestigated, in light of the reduction to our budget authority required by the Gramm-Rudman-Hollings Act (P.L. 99-177).

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U. S. Secret Service, Salaries and Expenses

SUMMARY OF EMPLOYMENT
(Number of Average Positions)

Principal Categories	Actual 1985	Estimated 1986	Estimated 1987	Increases/Decreases for 1987 Total	Increases/Decreases for 1987 Program Increases	Increases/Decreases for 1987 Other
Special Agents	1,945	1,925	1,925	---	---	---
U. S. Secret Service Uniformed Division (Officers only)	968	990	990	---	---	---
Treasury Police Force	41	48	48	---	---	---
All Other	1,311	1,346	1,346	---	---	---
Total Average Positions	4,265	4,309	4,309	---	---	---

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UNITED STATES SECRET SERVICE
Special Workload Data

1. Suppression of Counterfeiting, Theft and Fraud Relating to Treasury Electronic Fund Transfers, Debit and Credit Card Fraud, Computer Fraud, Food Coupon Fraud, Government Identification Fraud, Investigating Check and Bond Forgeries, Protection of Individuals, Buildings and Grounds, and Safeguarding Government Securities:

These programs include all protective activities; the detection and arrest of persons engaged in the counterfeiting, forging or altering of any obligations, food coupons, or government identification, as well as coins, of the United States and foreign governments; and the investigation of personnel, tort claims and other non-criminal cases.

Protective Research

Included in the protective function is the correlation and analysis of a mass of information obtained from letters, telephone calls and other sources, for the purpose of recognizing any potential danger to the President and his family, the Vice President and his family, other protectees and foreign diplomatic missions. The following statistics indicate the number of items received and reviewed in connection with Protective Research activities:

	Actual FY 1984	Actual FY 1985	(Estimated) FY 1986	(Estimated) FY 1987
White House Mail Room	6,800	4,800	5,000	5,000
White House Switchboard	9,100	5,500	5,000	5,000
Reports from Other Agencies	83,000	94,000	90,000	90,000
Reports from Field Offices	52,000	36,000	38,000	41,000
	150,900	140,300	136,000	141,000

Each report, letter or telephone call received must be handled on an individual basis by Protective Research personnel. Many items are necessarily reviewed more than once because of judgmental decisions and case review requirements. The Service has been very effective in improving its techniques in processing the volume of information. During Fiscal Year 1985, the Secret Service continued to initiate and implement concepts for further development in the areas of threat analysis, liaison, training and information systems.

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U. S. Secret Service, Salaries and Expenses

Protective Research Cases

The table below reflects the statistics on these cases for the Fiscal Years 1981 through 1985.

Fiscal Year	Cases Received	Cases Closed	Cases Pending Close of Year	Arrests	Convictions	Pending Court Action
1981	16,562	15,820	1,621	606	505	177
1982	17,333	17,354	1,556	771	731	151
1983	12,359	12,658	1,217	516	463	127
1984	14,103	13,538	1,755	514	435	192
1985	13,129	13,426	1,416	709	606	254

Counterfeiting

The Secret Service's enforcement efforts were successful in reducing note passing activity. As a result, counterfeit note passing activity decreased for the fourth consecutive year as 182,764 counterfeit notes were passed on the public during Fiscal Year 1985. Of the $68.7 million in counterfeit notes and coins produced during Fiscal Year 1985, 90 percent was confiscated prior to being passed on the public. Listed below are statistics on counterfeiting activity for Fiscal Years 1981 through 1985.

Fiscal Year	Cases Received	Cases Closed	Cases Pending Close of Year	Counterfeit Notes Passed	Plant Suppression	Arrests	Convictions	Pending Court Action
1981	18,038	17,952	3,040	227,822	83	1,710	1,575	914
1982	20,190	19,396	3,569	273,306	86	2,225	1,770	1,220
1983	19,335	19,097	3,396	214,851	115	2,047	1,870	1,194
1984	16,874	16,042	3,848	207,030	90	1,579	1,488	1,113
1985	17,307	17,189	3,441	182,764	104	1,738	1,591	1,018

Counterfeit Notes and Coins Confiscated

Fiscal Year	Passed on the Public	Seized before being Passed on the Public
1981	6,910,690	51,643,303
1982	8,587,028	73,685,590
1983	7,805,274	63,984,586
1984	7,560,339	81,732,232
1985	6,926,858	61,732,462

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Forgery and Fraudulent Negotiation of Government Checks

During Fiscal Year 1985 the Secret Service received 92,373 check forgery investigations, a decrease of 20 percent from the number received during Fiscal Year 1984. The check forgery investigations closed exceeded the 100,000 mark for the third consecutive year, with a total of 101,360 check investigations closed in Fiscal Year 1985. Arrests for check forgery increased from 3,862 in Fiscal Year 1984 to 4,719 in Fiscal Year 1985. Similarly, check forgery convictions increased 15 percent over the last fiscal year. The table below reflects check forgery statistics for Fiscal Years 1981 through 1985.

Check Forgery Statistics

Fiscal Year	Cases Received	Cases Closed	Cases Pending Close of Year	Arrests	Convictions	Pending Court Action
1981	78,746	73,798	63,815	3,457	3,397	[illegible],187
1982	101,291	82,762	80,844	4,652	4,228	1,481
1983	110,335	128,488	60,545	4,771	4,651	1,431
1984	115,455	108,135	65,270	3,862	3,722	1,437
1985	92,373	101,360	53,453	4,719	4,297	1,654

Forgery and Fraudulent Negotiation of Government Bonds

The Secret Service received 5,420 bond forgery investigations in Fiscal Year 1985. The number of bond forgery investigations closed totaled 6,502 resulting in 67 arrests. The following statistics reflect activities for Fiscal Years 1981 through 1985.

Bond Forgery Statistics

Fiscal Year	Cases Received	Cases Closed	Cases Pending Close of Year	Arrests	Convictions	Pending Court Action
1981	10,075	9,617	9,799	110	103	51
1982	9,676	10,715	8,333	122	108	51
1983	10,009	7,455	10,385	95	98	45
1984	7,003	7,363	9,285	61	53	47
1985	5,420	6,502	7,714	67	50	58

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U. S. Secret Service, Salaries and Expenses

Other Investigations

In addition to the primary missions of protection and investigations involving the violation of laws relating to counterfeiting and forgery, the Secret Service also is charged with investigations pertaining to:

1. Debit and Credit Card Fraud.
2. Direct Deposit and Electronic Fund Transfer Investigations.
3. Computer Fraud.
4. Food Coupon Fraud.
5. Government Identification Fraud.
6. The false making, forging or counterfeiting of Government Transportation Requests.
7. Violations of certain criminal statutes pertaining to operations of the Federal Deposit Insurance Corporation, Federal Land Banks, Joint Stock Land Banks and National Farm Loan Associations.
8. Losses, shortages and thefts from imprest funds of cashiers operating under Executive Order 6166.
9. Claims under the Government Losses in Shipment Act.
10. Personnel Security Programs.

Other Investigative Statistics

Fiscal Year	Cases Received	Cases Closed	Cases Pending Close of Year	Arrests	Convictions	Pending Court Action
1981	30,862	30,237	4,882	724	562	320
1982	28,519	25,675	7,395	1,066	809	526
1983	35,972	31,182	12,111	1,278	1,112	651
1984	52,706	43,956	19,633	1,087	1,041	605
1985	80,413	60,445	37,562	2,002	1,533	976

NOTE: The tremendous increase in cases received from FY 1984 to FY 1985 represents the reclassification of several thousand check forgery investigations to fraud, embezzlement, and misrepresentation investigations, and is also due to our new jurisdiction involving food coupon fraud, electronic fund transfer fraud, credit and debit card fraud, government identification fraud and computer fraud investigations.

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U. S. Secret Service, Salaries and Expenses

Debit and Credit Card Investigations

Fiscal Year	Cases Received	Cases Closed	Cases Pending Close of Year	Arrests	Convictions	Pending Court Action
1984	155	64	91	33	18	---
1985	1,881	1,041	894	550	227	---

Direct Deposit and Electronic Fund Transfer Fraud

Fiscal Year	Cases Received	Cases Closed	Cases Pending Close of Year	Arrests	Convictions	Pending Court Action
1983	4,646	2,722	2,885	44	29	---
1984	11,889	8,328	6,075	40	42	---
1985	7,916	8,582	4,939	67	58	---

Investigations in the areas of debit and credit card fraud, direct deposit and electronic fund transfer fraud are relatively new, and extensive data is not yet available. The data on this chart is also included in "Other Investigative Statistics".

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THE DEPARTMENT OF THE TREASURY

U. S. Secret Service, Salaries and Expenses

EXPLANATION OF FISCAL YEAR 1987 INCREASES AND DECREASES

I. PROGRAM CHANGES.....$16,537,000

1. INCREASE IN TECHNICAL SECURITY $2,200,000

Funds in the amount of $2,200,000 are required for technical security equipment and construction, of which $2,000,000 will be used to develop, produce and install equipment to implement an extension to a classified audio countermeasures system (Guardian Enhancement 5-Hardware) and $200,000 will be used to construct and install protective White House windows.

31.0 Equipment	$2,000,000
32.0 Lands and Structure	200,000
Total	$2,200,000

2. CANDIDATE AND NOMINEE PROGRAM $5,652,000

Funds in the amount of $5,652,000 are required for initial start-up costs associated with the 1988 Presidential Campaign. Of this amount $889,000 is required for training Secret Service Agents and Other Treasury Agents and $4,763,000 is required for communications equipment for Candidate and Nominee operations. These funds will be necessary for travel, per diem, and communications equipment in preparation for start up costs for the 1988 campaign.

21.0 Travel and Transportation of Persons	$ 889,000
31.0 Equipment	4,763,000
Total	$5,652,000

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U. S. Secret Service, Salaries and Expenses (Continued)

3. PAN AMERICAN GAMES $1,508,000

Funds in the amount of $1,508,000 are required for protective support for permanent protectees and foreign dignitaries at the 1987 Pan American Games in Indianapolis, Indiana.

11.5 Other Personnel Compensation	$ 475,000
21.0 Travel and Transportation of Persons	1,033,000
Total	$1,508,000

4. PROTECTIVE REQUIREMENTS $ 500,000

Funds in the amount of $500,000 are required for construction at the Vice President's residence at the Naval Observatory.

32.0 Lands and Structures	$ 500,000

5. INCREASE IN ADP PROGRAMS $ 4,283,000

Funds in the amount of $4,283,000 are required for ADP Programs. Of this amount, $1,783,000 is required for the replacement of the mainframe computer to support overall computer application such as users of the Secret Service Integrated Network, including the Master Central Index System (MCI), the Agent Management and Protective Support System (AMPS) and Protective Intelligence System. Concurrent with the replacement of the mainframe computer hardware, current computer applications systems software and purchased software must be adapted to the larger capacity mainframe computers. This will require $2,500,000.

23.3 Communications, Utilities and Other Rent	$1,783,000
25.0 Other Services	2,500,000
Total	$4,283,000

6. INCREASE IN COMMUNICATIONS PROGRAMS $ 1,580,000

Funds in the amount of $1,580,000 are required for communications programs, of which $225,000 is for the purchase of telephone equipment for field offices, resident agencies, Headquarters offices, protective divisions and communications trip packages, due to the divestiture of American Telephone and Telegraph (AT&T); $915,000 is for the Treasury-wide Digital PBX Telephone System; $200,000 is for additional secure telephone units for Headquarters offices, field offices and resident agencies which will be part of the Executive Secure Voice Network (ESVN); and $240,000 is for secure facsimile machines to provide the capability of transmitting classified documents between protective sites, field offices and Headquarters offices which have secure telephone capability.

23.3 Communications, Utilities, and Other Rent	$ 915,000
31.0 Equipment	665,000
Total	$1,580,000

7. PROTECTIVE SUPPORT $ 114,000

Funds in the amount of $114,000 are required for magnetometers to increase security and to enable the Service to replace aged or damaged units in the White House Complex and provide adequate backup units for protective details.

31.0 Equipment	$ 114,000

8. ARMORED LIMOUSINES $ 700,000

Funds in the amount of $700,000 are required for the full development and fabrication of two armored parade limousines. Technology is constantly improving in the field of ballistics and it is necessary to improve our fleet to offer the best protection possible to our protectees.

22.0 Transportation of Things	$ 2,000
25.0 Other Services	672,000
26.0 Supplies and Materials	12,000
31.0 Equipment	14,000
Total	$ 700,000

TOTAL, PROGRAM INCREASES $16,537,000

THE DEPARTMENT OF THE TREASURY

U. S. Secret Service, Salaries and Expenses

, OTHER CHANGES

I. INCREASES NECESSARY TO MAINTAIN CURRENT LEVELS.....$17,487,000

1. INCREASED COST OF NON-GSA LEASES AND NON-GSA PROVIDED SERVICES $ 54,000

Funds in the amount of $54,000 are required for the increased cost of non-GSA leases and the increased cost of various non-GSA provided services including $46,000 for maintenance contracts, cleaning services and utilities. The remaining $8,000 will help offset the 3.9 percent increase for non-GSA rental/service payments at several protective sites.

23.3 Communications, Utilities, and Other Rent	$ 8,000
25.0 Other Services	46,000
Total	$ 54,000

2. INCREASED COST OF REPLACEMENT VEHICLES $ 172,000

Funds in the amount of $172,000 are required to offset the increased cost of replacement law enforcement vehicles.

31.0 Equipment	$ 172,000

3. INCREASED COST OF RENT PAYMENTS $ 107,000

Funds in the amount of $107,000 are required to help offset the cost increases of expiring space leases.

23.1 Rent Payments	$ 107,000

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U. S. Secret Service, Salaries and Expenses (Continued)

4. INCREASED COST OF GSA PROVIDED SERVICES $ 311,000

Funds in the amount of $311,000 are required for the increased costs of recurring reimbursements for GSA provided services. These funds are necessary for the increased cost of utilities used during overtime work periods and for selected cleaning and maintenance services.

25.0 Other Services	$ 311,000

5. GOVERNMENT'S SHARE OF HEALTH INSURANCE BENEFITS $ 390,000

Funds in the amount of $390,000 are required in FY 1987 for the Government's share of health insurance. These funds are required to meet increased costs estimated by the Office of Personnel Management to be 10 percent in FY 1987.

12.1 Personnel Benefits	$ 390,000

6. INCREASED COST OF SUPPORT SERVICES AND FACILITIES $ 400,000

Funds in the amount of $400,000 are required for the increased cost of support services and facilities throughout the Service. These funds are required to meet cost increases of technical security supplies, and services, ADP leases, training supplies, uniforms and ammunition, as well as replacement costs for standard supplies.

23.3 Communications, Utilities, and Other Rent	$ 102,000
25.0 Other Services	235,000
26.0 Supplies and Materials	63,000
Total	$ 400,000

7. INCREASED COST OF FTS AND OTHER COMMUNICATIONS $ 1,800,000

Funds in the amount of $1,800,000 are required for the GSA Federal Telephone System (FTS) and inflationary cost increases in the areas of telecommunications, antenna site leases and replacement parts.

23.3 Communications, Utilities, and Other Rent	$1,800,000

U. S. Secret Service, Salaries and Expenses (Continued)

8. INCREASED COST OF TRAVEL $1,294,000

Funds in the amount of $1,294,000 are required to help partially offset the increases in foreign and domestic airfares, hotel rates and per diem necessary for protective travel in Fiscal Year 1987.

21.0 Travel and Transportation of Persons	$1,294,000

9. INCREASED COST OF POSTAGE $ 49,000

These funds are required to partially offset the increased cost of penalty mail associated with normal operations of the Service. The $49,000 takes into consideration the unpredictable increases in postage rates by the U. S. Postal Service.

23.3 Communications, Utilities, and Other Rent	$ 49,000

10. MAINTENANCE OF JAMES J. ROWLEY TRAINING CENTER $ 221,000

Funds in the amount of $221,000 are required for the increased cost of maintenance services and utilities for the Rowley Training Center.

25.0 Other Services	$ 221,000

11. INCREASED COST OF PAYROLL/PERSONNEL SYSTEMS $ 21,000

Funds in the amount of $21,000 are required to cover the increased cost of Payroll/ Personnel Systems for FY 1987.

25.0 Other Services	$ 21,000

U. S. Secret Service, Salaries and Expenses (Continued)

12. INCREASED COST OF PRINTING AND REPRODUCTION $ 26,000

Funds in the amount of $26,000 are required to offset the 7 percent increase in costs estimated by the Government Printing Office for FY 1987.

24.0 Printing and Reproduction	$ 26,000

13. RESTORATION OF GRAMM-RUDMAN-HOLLINGS ACT (P.L. 99-177) $12,642,000

Funds in the amount of $12,642,000 are being restored to maintain FY 1986 program levels reduced by Public Law 99-177.

11.1 Personnel Compensation	$ 1,829,000
11.5 Other Personnel Compensation	2,000,000
12.1 Personnel Benefits	3,878,000
25.0 Other Services	500,000
26.0 Supplies and Materials	830,000
31.0 Equipment	3,605,000
Total	$12,642,000

TOTAL, INCREASES NECESSARY TO MAINTAIN CURRENT LEVELS $17,487,000

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THE DEPARTMENT OF THE TREASURY

U. S. Secret Service, Salaries and Expenses

III. REDUCTIONS, NON-RECURRING COSTS AND SAVINGS .....

1. EQUIPMENT BASE $-4,582,000

Funds in the amount of $-4,582,000 are included as a program reduction from our FY 1986 equipment base.

31.0 Equipment	$-4,582,000

2. PROGRAM REDUCTION $-3,660,000

Funds in the amount of $-3,660,000 are reduced from our FY 1987 budget for the counterterrorism program received in FY 1986 but was not included in the FY 1986 base from which the FY 1987 totals were derived. This was a result of the time lag involved between the passage of the FY 1986 Continuing Resolution and the budget review process conducted by the Office of Management and Budget.

21.0 Travel and Transportation of Persons	$-2,060,000
23.3 Communications, Utilities and Other Rent	-1,600,000
Total	$-3,660,000

TOTAL REDUCTION, NON-RECURRING COSTS AND SAVINGS $-8,242,000

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THE DEPARTMENT OF THE TREASURY

United States Secret Service
Standard Classification Schedule
(Direct Obligations Only)
(In thousands of dollars)

	Appropriation 1985	Authorized Level 1986	Budget Estimate 1987	Increase or Decrease 1987 Over 1986
Total number of permanent positions	4,325	4,355 1/	4,355 1/	---
Average paid employment	4,265	4,309 1/	4,309 1/	---
Object Classification:				
Personnel Compensation:				
Permanent positions	$126,353	$133,486	$135,315	$ 1,829
Positions other than permanent	---	366	366	---
Other personnel compensation	31,033	24,698	27,173	2,475
Special Services	375	21	21	---
Total personnel compensation	$157,761	$158,571	$162,875	$ 4,304
Personnel benefits	21,689	19,049	23,317	4,268
Benefits for former personnel	18	---	---	---
Travel & transportation of persons	30,564	29,702	30,558	856
Transportation of things	1,177	2,378	1,380	-998
Rent, communications, & utilities:				
Rent payments	13,417	14,926	15,033	107
Other rent payments	472	430	430	---
Communications, utilities, and other rent	12,642	15,875	19,932	4,057
Printing and reproduction	594	713	739	26
Other Services:				
Other services	20,726	21,572	23,011	1,439
Supplies and materials	6,638	6,102	7,007	905
Equipment	23,664	15,264	21,515	6,251
Lands and structures	868	3,800	1,300	-2,500
Insurance claims and indemnities	62	43	43	---
Total obligations	$290,292	$288,425	$307,140	$18,715
Unobligated balance, end of year	7,611	---	---	---
Available for obligation from prior year appropriation	-5,254	-7,067	---	7,067
Total Appropriation, Authorized Level, and Budget Estimate	$292,649	$281,358	$307,140	$25,782

1/ Includes 30 unfunded positions.

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U. S. Secret Service, Salaries & Expenses

DETAIL OF PERMANENT POSITIONS

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
ES-6.....	1	1	1
ES-5.....	1	1	1
ES-4.....	7	7	7
ES-3.....	11	11	11
ES-2.....	5	5	5
ES-1.....	3	3	3
Subtotal	28	28	28
GS/GM 15.....	100	100	100
GS/GM 14.....	218	220	220
GS/GM 13.....	709	715	715
GS-12.....	608	615	615
GS-11.....	276	204	204
GS-10.....	7	8	8
GS-9.....	290	291	291
GS-8.....	86	92	92
GS-7.....	358	405	405
GS-6.....	160	170	170
GS-5.....	220	245	245
GS-4.....	121	121	121
GS-3.....	84	90	90
GS-2.....	8	10	10
Subtotal	3,245	3,286	3,286

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U. S. Secret Service, Salaries & Expenses

DETAIL OF PERMANENT POSITIONS

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Grades established by Salary Act of 1974 Public Law 93-407 (D.C. Code, Section 4-823; 3 U.S.C. 2046).			
Class 10 $59,825 to $67,795	1	1	1
Class 9 $50,456 to $60,711	3	3	3
Class 8 $42,998 to $49,462	6	6	6
Class 7 $37,097 to $42,651	12	13	13
Class 5 $31,313 to $37,582	41	42	42
Class 4 $27,096 to $33,867	118	118	118
Class 1 Private Tech $20,762 to $29,536	101	125	125
Class 1 Private $19,952 to $28,726	675	710	710
	957	1,018	1,018
Wage System	21	22	22
Foreign	1	1	1
	22	23	23
Total Permanent Positions	4,325	4,355	4,355
Unfilled Positions End of Year	73	220	55
Total Permanent Positions End of Year	4,252	4,135	4,300

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U. S. Secret Service, Salaries & Expenses

AVERAGE GRADE AND SALARIES

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Average ES Salary.....	$66,765	$66,765	$66,765
Average GS Grade.....	9.61	9.64	9.64
Average GS Salary.....	$28,549	$29,104	$29,104
Average Salary of Grades Established by P.L. 93-407.....	$26,127	$26,242	$26,242
Average Salary of Ungraded Positions.....	$20,279	$20,659	$20,659

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U. S. Secret Service, Salaries & Expenses

CONSULTING AND RELATED SERVICES

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Consulting Services	$612	$644	$564
Management and Professional Services	---	---	---
Special Studies and Analyses	---	---	---
Management and Support Services for Research and Development	---	---	---
Total Consulting and Related Services	$612	$644	$564

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U. S. Secret Service, Salaries and Expenses

CONSULTING AND RELATED SERVICES

Fiscal Year 1985 (Actual)

The Service obligated $612,050 for consulting services in Fiscal Year 1985.

Funds in the amount of $479,000 were obligated for consulting services in support of the Service's plans to implement a nationwide on-line interactive system, the Secret Service Integrated Network, and to upgrade the mainframe computer.

The Secret Service Integrated Network is essential to the Service's current automation and communications needs, as well as its evolving mission. This system will permit a wide range of analyses in correlating criminal activities with identifiable offenders, support the nationwide message dispatch network and automate several administrative processes.

These consulting services include systems engineering and analysis support relative to mainframe computer system capacity, i.e., analysis of current and projected user requirements for information creation, retrieval, manipulation and storage. It also includes formulation and analysis of communications technology options, including encryption or other security measures for data transfer.

The Service's expansion in jurisdictional authority could increase current case load and subsequent data transfer requirements by 100 percent; the Secret Service Integrated Network and mainframe computer must be flexible to satisfy current and future requirements.

Alternatives to pursuing these consulting services would be to recruit a highly specialized engineering staff to design and implement the systems; this alternative was rejected due to its expense and impracticality.

Funds in the amount of $133,050 were obligated in Fiscal Year 1985 for consulting services in support of the Behavioral Research Program within the Secret Service. This amount includes $15,550 to retain consultants and $117,500 to pursue their recommendations.

The Secret Service has utilized the services of four part-time consultants from the behavioral research field to assist in the development of research projects and to evaluate research proposals. We have chosen the services of these professionals as consultants, rather than as permanent employees, because their expertise in the field of research continues to develop along with the state-of-the-art.

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U. S. Secret Service, Salaries and Expenses

CONSULTING AND RELATED SERVICES

Fiscal Year 1985 (Continued)

The initial consulting contract let in Fiscal Year 1983 was for the purpose of establishing an external research advisory board to oversee development of a behavioral research capability within the Intelligence Division. This committee will advise management on research priorities and make judgments about research contracts to ensure that the Service takes a consistent and integrated approach to its research needs.

The alternative to obtaining this expertise would be to request personnel on a permanent basis; however, cost considerations are prohibitive and impractical.

Fiscal Year 1986

The Service anticipates obligations in the amount of $644,400 for consulting services in Fiscal Year 1986.

The Service will continue to utilize consultants for planning, analysis and system engineering support for implementing its nationwide on-line interactive system, the Secret Service Integrated Network, and for the mainframe computer upgrade. Funds in the amount of $481,400 are expected to be obligated for this purpose during Fiscal Year 1986.

We will continue to utilize, on a part-time basis, the services of two consultants from the field of behavioral research. These individuals will act as advisors to management regarding behavioral research as it relates to Secret Service programs. Funds in the amount of $13,000 may be obligated to retain these consultants and $150,000 may be obligated to pursue their recommendations in Fiscal Year 1986.

Fiscal Year 1987

An estimate of $564,000 is expected to be obligated for consulting services in Fiscal Year 1987.

An estimate of $400,000 is anticipated to be obligated to continue the implementation of our nationwide on-line interactive system (Secret Service Integrated Network) and for the completion of the mainframe computer upgrade.

An estimate of $14,000 is included to utilize the two part-time consultants' services in the field of behavioral research, as well as $150,000 to pursue their recommendations.

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U. S. Secret Service, Salaries and Expenses

IMPLEMENTATION OF THE FOREIGN MISSIONS ACT (P.L. 97-241)

As requested by the Treasury, Postal Service, and General Government Appropriations Senate Report No. 98-186, following is the FY 1987 report on U. S. Secret Service involvement in the implementation of the Foreign Missions Act, P.L. 97-241:

Members of the Secret Service maintain contact with the Department of State and the National Capital Planning Commission to ensure our joint efforts in complying with the requirements of the Foreign Missions Act, P.L. 97-241. As discussed in the FY 1986 budget submission report, liaison has been established between the Service and the Planning and Programming Division of the National Capital Planning Commission for purposes of accountability and consideration of all Foreign Missions relocation requests received from the Office of Foreign Missions, Department of State.

The following is a list of Foreign Missions property requests submitted to the Secret Service by the Office of Foreign Missions, Department of State, during Calendar Year 1985:

Date Received	Country	Action Taken By USSS
01-04-85	Mozambique	Concur
01-04-85	Argentina	Concur
01-22-85	United Kingdom	Concur
02-13-85	France	Concur
02-13-85	Saudi Arabia	Concur
02-13-85	United Kingdom	Concur
02-13-85	Bangladesh	Concur
10-07-85	Czechoslovakia	Concur
10-07-85	U.S.S.R.	Concur
10-07-85	Switzerland	Concur
10-07-85	Turkey	Concur
11-19-85	Tunisia	Concur
11-26-85	France	Concur
11-26-85	Czechoslovakia	Concur
12-31-85	Austria	Concur

Telephone contacts and personal visits were made to the National Capital Planning Commission in March, May, June, September, October, and December, 1985. Their receipt of Foreign Mission Property Requests were similar to those received by the Secret Service.

February 4, 1986

IMPLEMENTATION OF THE FOREIGN MISSIONS ACT (P.L. 97-241) (Con't)

It is noted that the Secret Service concurred with all of the relocation requests. However, the security office at the Department of State was verbally advised of any increase in response time and/or decrease in availability of routine security patrols depending on the new location.

In summary, the statutory responsibilities of the United States Secret Service are to provide protection for all Foreign Diplomatic locations according to Title 3, Section 202 and Title 18, Section 3056, United States Code. The Foreign Missions Act has provided the United States Secret Service, the National Capital Planning Commission, the District of Columbia Zoning Commission, and the Department of State with the ability to have input in the relocations of all Chancery facilities in Washington, D.C. This Act affords the Service the ability to predict its needs and manage the resources available to fulfill its protective responsibilities. Past trends indicate that the diplomatic community has begun to expand over a larger portion of the city, and the Service realizes that additional resources are needed in conjunction with these relocations.

After reviewing the current information available, the procedure on distribution of Foreign Mission Property Requests, generated from the Department of State, requires a more expedient administrative processing. The Service, when it receives the request, normally has a limited time frame to reply. All too often, the expiration date has come and gone before the Service sees or has an opportunity to react to the property relocation/acquisition proposal. A continued evaluation is necessary prior to providing any additional recommendations and suggestions as to changing existing regulations, procedures, or law of the Foreign Missions Act, P.L. 97-241.

A final note to this report would be a reminder that the Foreign Missions Act addresses Chanceries of foreign governments and their mandatory locations within the District of Columbia. The Act does not identify the Embassies (Ambassadors Residences) or their authorized location. The current trend for the embassies is their migration from the District of Columbia.

Over thirty (30) countries have relocated their embassies to the Virginia and Maryland suburbs. While in the past, the Service has not opposed their relocation, the Department of State has been fully aware that these relocations are out of our normal zone coverages and extends the limitations of our resources.

February 4, 1986

58-905 O—86——18

TUESDAY, MARCH 4, 1986.

DEPARTMENTAL OFFICES

SALARIES AND EXPENSES

WITNESSES

JOHN F. W. ROGERS, ASSISTANT SECRETARY, MANAGEMENT

PAUL H. COOKSEY, DEPUTY ASSISTANT SECRETARY FOR ADMINISTRATION

JILL E. KENT, DEPUTY ASSISTANT SECRETARY FOR DEPARTMENTAL FINANCE AND PLANNING

ROGER M. COOPER, DEPUTY ASSISTANT SECRETARY FOR INFORMATION SYSTEMS

INTRODUCTION OF WITNESSES

Mr. ROYBAL. The committee will now hear from the departmental officers of the Department of the Treasury. I will ask Mr. Rogers to proceed in any manner that he may desire.

Mr. ROGERS. Thank you, Mr. Chairman.

First, I would like to introduce the witnesses accompanying me. On my far right, I think you have already met Jill Kent, who is Deputy Assistant Secretary for Departmental Finance and Planning. Immediately to my right is Roger Cooper, Deputy Assistant Secretary for Information Systems, and on my left, Paul Cooksey, Deputy Assistant Secretary for Administration.

[The biographies follow:]

JOHN F.W. ROGERS

John F. W. Rogers was born and raised in Seneca Falls, New York and received his bachelor's degree in Public Affairs from George Washington University in 1978. While attending the University, Mr. Rogers worked full time in the Ford White House as an assistant to the Director of Comunications. He worked on the staff of the Senate Republican Policy Committee from January until November 1977 when he left to help launch the magazine, *Public Opinion*, at the American Enterprise Institute for Public Policy Research. He worked on the editorial staff of the magazine until he moved into the administrative ranks of the Institute. In September 1979, he was appointed Assistant for Administration and continued in that capacity until he left the Institute in November 1980.

During the Reagan Presidential transition, Mr. Rogers was Executive Assistant to the Director of the White House transition team. He was responsible for reviewing the administrative operations of the White House.

Mr. Rogers joined the Reagan White House staff on January 10, 1981. The President appointed Mr. Rogers Special Assistant to the President for Administration and Director of the Office of Administration. On February 1, 1982, the President appointed Mr. Rogers to Deputy Assistant to the President for Management.

On June 1, 1983, the President appointed Mr. Rogers Assistant to the President for Management and Administration with overall administrative responsibility for operations within the Executive Office of the President.

On May 17, 1985, Mr. Rogers was sworn in as Assistant Secretary (Management) of the Department of the Treasury, a new position created by P.L. 98-594, the position he currently holds.

ROGER M. COOPER, APPOINTED DEPUTY ASSISTANT SECRETARY FOR INFORMATION SYSTEMS

Roger M. Cooper was appointed as Deputy Assistant Secretary for Information Systems of the Department of Treasury on September 23, 1985. His office oversees computer hardware and software, office automation, telecommunications support and imaging technologies.

Since 1982, Mr. Cooper had served in the Veterans Administration as Director of the Medical Information Resources Management Office.

From 1974 to 1982, Mr. Cooper worked for the Office of Personnel Management (OPM), and its predecessor, the U.S. Civil Service Commission. His responsibilities included Director of the Office of Automated Systems Development and Directing the operation and management of the Federal Civil Service Retirement System.

Mr. Cooper held various positions in the United States Navy between 1964 to 1973. He was Chief, Automatic Data Processing (ADP) Section at the Deputy Chief of Naval Operations (AIR), and Director, Systems and Programming, Naval Security Station, Washington, D.C.

In the private sector, Mr. Cooper worked in ADP managerial positions with the California companies of Larwin Group, Inc. (1973-74), and for Ducommun, Inc. (1970-71).

Mr. Cooper holds a BS, and MSA in operations research, and an MBA from the University of California. He resides with his wife Erica in Alexandria, Virginia. He was born in Scottsbluff, Nebraska, on February 25, 1943.

JILL E. KENT, APPOINTED DEPUTY ASSISTANT SECRETARY

Jill E. Kent has recently been appointed Deputy Assistant Secretary for Departmental Finance and Planning, responsible for the formulation and execution of the Department's budget and long-range planning.

From 1980 until her appointment at Treasury, Mrs. Kent worked at the Office of Management and Budget. She held the position of Chief of the Treasury and General Services Branch since June 1984.

Mrs. Kent has spent her career in various positions with the Federal Government spanning nearly 15 years, including 2½ years with the Department of the Treasury as a Staff Attorney.

Mrs. Kent received her B.A. in 1970 from the University of Michigan; and H.D. in 1975 and L.L.M. (Taxation) in 1979, both from George Washington University.

Mrs. Kent is married and resides in Washington, D.C.

PAUL H. COOKSEY

Paul H. Cooksey was born August 13, 1948 in Toyko, Japan. He graduated from Hampden-Sydney College, with a bachelor's degree in Political Science in 1970 and received his law degree from George Mason University in 1981.

From 1970 to 1980 he served as Legislative Assistant to United States Senator Richard S. Schweiker. From 1980 to 1981 he was Vice President, Government and Congressional Affairs, for the Cooksey Corporation.

Mr. Cooksey held the position of Director of Legislative Planning, Programs and Research in the Office of Legislative Affairs at the National Aeronautics and Space Administration from 1981 to 1983. He was a partner in Losch and Cooksey, Attorneys at Law, from 1983 to 1984.

Mr. Cooksey served as Secretary and General Counsel for CASA Aircraft U.S.A., Inc. as well as Vice President and Deputy General Counsel for Dutko and Associates from 1984 to 1985.

In 1985 he was appointed to his current position of Deputy Assistant Secretary for Administration of the Department of the Treasury.

OPENING STATEMENT

Mr. ROGERS. With your permission, I would like to read my statement.

It is a pleasure to be here today to discuss the FY 1987 budget request for the Salaries and Expenses appropriation. This appropriation provides funding for the Treasury's Departmental Offices, which support the Secretary and the senior officials of the Department in fulfilling their roles as policy advisors and managers of the activities of the Department.

These offices have broad and diverse functions, including:

1. providing research and advice on U.S. domestic and international economic, monetary and tax policies;
2. managing the fiscal operations of the U.S. Government and financing the public debt;
3. overseeing Treasury's major law enforcement and protective responsibilities;
4. fulfilling international economic and financial responsibilities, as well as serving as the United States representative to various international financial organizations;
5. providing management oversight of the operations, including information systems, of the Department's bureaus.
6. serving as liaison with the public on issues of importance to Treasury; and
7. discharging our obligation to properly maintain the Treasury buildings and grounds.

The FY 1987 request reflects our commitment to fulfill these important responsibilities, and our recognition that limited resources are available given today's fiscal situation.

The Department's FY 1987 budget request is for $80.1 million and 1,264 full-time permanent positions. This is an increase of $3.4 million over the level in the continuing resolution, or $6.7 million over the reduced Gramm-Rudman level. In addition, we are requesting that 19 full-time permanent positions be transferred from reimbursable to direct funding status.

The principal portion of this increase is an accounting adjustment that places on budget the administrative costs and staffing for the Federal Financing Bank in this appropriation. Previously the administrative costs of the bank were handled off budget and the staffing was handled on a reimbursable basis.

The remaining increases are for the digital telephone switch, a major Departmental initiative, costs to maintain the current levels of services in selected areas, and facilities maintenance improvements.

We are again requesting a merger of the Salaries and Expenses and International Affairs appropriations in FY 1987. As we have stated before, Departmental Offices is a single, integrated organization responsible for providing the Secretary with staff support in matters of policy analysis and coordination for the entire Department. We, therefore, do not consider this requested merger to be a major policy issue or an extraordinary request. Rather, we believe that the merger will enhance the Departmental Offices' operations and achieve administrative efficiencies through:

1. integration of financial planning and management to correspond with programmatic planning and management;
2. elimination of duplicate standard reports, such as accounting, payroll, personnel, procurement; and

3. provision of a degree of flexibility in meeting changing policy needs.

Currently, employees in the Departmental Offices support functions in both the International Affairs and Salaries and Expenses areas, regardless of which appropriation provides their compensation and benefits. We currently make manual adjustments to the two appropriations to prorate charges for GSA space rentals, postal services, telephones, FTS, and other utilities. Recurring contracts for building maintenance, equipment maintenance, data processing services and even subscriptions and supplies are also being prorated manually.

Merging the two appropriations will enable us to continue to provide the Congress with the same level of detail you are receiving now. And more if you wish it.

I would now like to address each of our activities briefly. Of the amount requested, $21.2 million will support the Secretarial Policy and Program Development activity, which encompasses the broad economic policy activities of Departmental Offices. These include the development of tax initiatives, economic forecasts, fiscal policy, management of the public debt and the oversight of our manufacturing processes.

An estimated $4.8 million will support the Inspector General function, which is responsible for developing and maintaining systems for audits and internal investigations of Treasury operations in Departmental Offices and non-enforcement bureaus.

The International Affairs activity will require $13.1 million in FY 1987. This activity includes a wide range of staff research and analysis functions dealing with international trade and investment, international monetary affairs, development financing and general economic research into international financing issues.

An estimated $26.1 million is requested for Departmental Management and Administration, which is responsible for the general management and oversight of the Treasury bureaus and the administration of the Departmental Offices.

Approximately $12.2 million will be used to maintain, operate and support the Main Treasury Building and Annex. Under the Federal Property and Administrative Services Act of 1949, as amended, the Treasury Department has operational responsibility for the Treasury and annex buildings. Services that otherwise would be provided by the General Services Administration are budgeted directly through the Salaries and Expenses appropriations. We are requesting a $434,000 program increase in order to maintain the buildings adequately. This increase will be used to:

1. provide proper servicing of the heating and ventilation and air-conditioning system and the ongoing maintenance of the elevators; and

2. provide for more comprehensive cleaning and janitorial service.

In addition, we are requesting $650,000 for necessary repairs and improvements to the Treasury and Annex buildings. This is a decrease from the funds requested last year and will allow us to effect necessary changes to the Treasury's physical plant.

Mr. Chairman, this budget request supports our policy objectives and will enable us to meet our responsibilities. Thank you for your

consideration of our request. I will be happy to answer your questions.

FY 1987 INCREASE—MERGER OF TWO APPROPRIATIONS

Mr. ROYBAL. Thank you, Mr. Rogers.

I see that you have requested an increase of $29 million over the amount that you received for 1986. In 1986, you had an appropriation of $54.2 million. Under Gramm-Rudman that was reduced by $3.2 million.

Your request then is definitely $29 million more and you have told the committee that the principal portion of this increase is in the accounting adjustment that places on budget the administrative costs and staffing for the Federal Financing Bank. Now, what percentage of that amount of $29 million is actually due to the budget for the Federal Financing Bank?

Mr. ROGERS. Mr. Chairman, I think since FY 1983 the Department has requested a merger of the International affairs appropriation with the Salaries and Expenses appropriation. If you look at that merger, then you will come to that $23 million increase. It results from the elimination of the International Affairs appropriation and merging it with the Salaries and Expenses account.

The true increase for the appropriation is $6 million. I discussed the merger of appropriations last year, after I came to Treasury, at length with Mr. Gunnels. I asked to have the opportunity to present the case for merger. Since the committee obviously was not in favor of merger at the time of conference action, and I felt that there was a very basic—particularly for my position at Treasury—fundamental reason for the merger, which was proper administration——

Mr. ROYBAL. If you were to merge would you save $29 million?

Mr. ROGERS. No, we would not, because those resources would still be required to pay for expenses for people on-board.

Mr. ROYBAL. There would be no savings if the merger were agreed to?

Mr. ROGERS. In fiscal year 1983, when the Department first proposed merging the accounts, the Congress took a savings of three positions as a result of not having two separate staffs. I read that it was $100,000. I know that my predecessors have come and said that there will be additional savings. We estimate the true savings on the merger would be only five positions. Quite frankly, I think that is not the point and purpose of the merger. The real reason for doing it is from an efficiency point of view. We basically maintain two separate accounting systems and two separate systems of records in order to handle these two appropriations.

Let me give you one more example. If you looked at the staffing breakdown between these two entities in FY 1986, you would have basically 400 people that would be assigned to the International Affairs appropriation, and 845 to the Salaries and Expenses appropriation. If you took away from the Treasury the entire responsibility in International Affairs, we would not be able to do away with all 400 people, because those people that are carried, for example, in management, are assigned to the International Affairs appropriation for administrative purposes. They have actually been prorated just to facilitate the staffing levels and are truly performing work for the programs in which they are indeed recorded.

If you eliminate Treasury's international affairs responsibilities, we probably would still need 50 of those people retained for ongoing responsibilities to the Department.

By completing the merger, I think we can achieve an economy and efficiency, but I want to stress that I really feel it is an efficiency I have to deal with in making any kind of staff adjustments.

When I began considering possible cuts in staffing because of Gramm-Rudman, I had to try to look at the entire picture as a manager in the Department. I looked at it as a single sort of entity composed of those different offices.

When I reviewed it, I had to completely move between International Affairs direct, Salaries and Expenses direct, International Affairs reimbursable, Salaries and Expenses reimbursable and, Working Capital Fund Financing, matching up against full time, permanent, temporary salaries and support costs. It gets to be a very confusing situation. By merging the two accounts, we only have to use one overall number broken down by those categories of employment.

Mr. ROYBAL. After you do all that, the actual savings because of the Treasury efficiencies, is in the neighorhood of $100,000?

Mr. ROGERS. Probably about five staff years in actual savings. I don't presume to come here and say there are enormous dollar savings here. I come forward to say that I think it is for the Secretary to be able to have better management.

I think you recall the first time that I came to the White House in FY 1981 and presented the consolidated accounting system. It was achieved for better efficiency to make it easier for me to manage.

As far as the information the committee requires to gauge the responsibilities of our international functions, what we provide today seems to have been adequate. If you need more information, I am more than willing to provide that.

Mr. ROYBAL. Let's go back to the $29 million increase. Break that down for the committee into two areas, one the Federal Financing Bank, and the remaining amount for the Digital Telephone switch.

Mr. ROGERS. Of that increase, the way that you described it, $23.5 million is the former International Affairs appropriation, $2 million is for the Federal Financing Bank. The Digital switch is $1.4 million.

Mr. ROYBAL. Let's go over that again. Digital Telephone switch is $1——

Mr. ROGERS. $1.4 million.

Mr. ROYBAL. What is the balance of the $29 million?

Mr. ROGERS. Of that amount, $23 million is for the International Affairs appropriation merged into the salaries account.

Mr. ROYBAL. What is the amount for the administrative cost and staffing for the Federal Financing Bank?

Mr. ROGERS. Two million dollars is associated with the Federal Financing Bank activities.

Mr. ROYBAL. Why don't those amounts total $29 million?

Mr. ROGERS. Let me re-explain. We are requesting a $6.7 million increase, added to the $23 million for the international activities, totals the $29 million. In the $6.7 million are the increases for the Digital switch, which is $1.4 million; maintaining of current levels,

which is another $2.0 million; and a $3.3 million increase for restoration of funds reduced in FY 1986 related to Gramm-Rudman that adds to the $29 million.

FEDERAL FINANCING BANK ACTIVITIES

Mr. ROYBAL. In order to put in the record some justification for the expenditure of funds for the Federal Financing Bank, can you tell us what functions the bank performs?

Mr. ROGERS. Yes, sir. The purpose of the Federal Financing Bank is to coordinate the Federal and federally-assisted borrowing programs. They reduce the cost of such borrowings and assure that such borrowing is financed in the least disruptive manner to the private financing markets and institutions.

Now, the Federal Financing Bank was created in 1973 out of the Federal Financing Bank Act. Its activities have heretofore been off budget. With this increase, OMB has proposed to put its administrative costs on budget and to include it within the departmental offices appropriations.

This is for the administrative expenses alone of the Bank. Previously, as I say, it was off budget and the monies that were collected from the bank financed the borrowing activities throughout the government, the balance was returned to Treasury and only the administrative costs were paid for, which amounted to approximately $2 million.

This $2 million is for salaries of 19 full-time permanent people and other costs associated with operating primarily computer services.

Mr. ROYBAL. Nineteen additional positions then will cost $2 million, is that correct?

Mr. ROGERS. Two million dollars are the administrative expenses, of which a portion is for salaries, yes.

Mr. ROYBAL. Does that pay for the 19 positions?

Mr. ROGERS. Yes sir, that is included in that, sir.

REPAIRS AND IMPROVEMENTS PROGRAM

Mr. ROYBAL. You mentioned the rare status of the Main Treasury Building. How will your requested $650,000 for that be used? I thought there were some funds appropriated last year.

Mr. ROGERS. Yes, the monies that were appropriated last year were primarily used for the design study on the Annex building. The year before, the Annex money was eliminated because of the issue of the move to Prince George's County of the Financial Management Service.

The monies, $650,000, that we are requesting this year, are principally for three reasons:

One is the replacement of five electrical generators in the building. We have been maintaining these generators but, now I feel that they do need to be replaced. We have had a series of PCB leaks that have been corrected. I just think the life span of these generators has expired and not to maintain them and to react to possible leaks, I think, is probably dangerous, so we have to replace them.

Second, fifty thousand dollars is part of an ongoing program that I initiated when I came to Treasury, of asbestos removal. We are asking for $50,000 to do that.

Third, the remaining $50,000 is to overhaul two of our 800 ton chiller units.

Now, the reason for spending $50,000—is that we think we can extend the life of the chiller if we can shut them down and do a complete overhaul.

In most chiller systems, there is a series of pipes in the tanks. What has occurred within those pipes is an enormous amount of decay and corrosion built-up by constant water circulation. Those build-ups end up plugging the holes and all of a sudden, in the middle of the summer, we have a major shutdown. We have had so many frequent shutdowns that we are proposing to shut the whole system down and perform a major overhaul. I think that we will be able to eliminate and postpone at least for about ten more years a total replacement of our 800 ton chiller system.

Mr. ROYBAL. Mr. Skeen.

Mr. SKEEN. How long were those chillers in operation, since any maintenance or overhaul?

Mr. ROGERS. From what I have been told when I asked this question, they have had no maintenance or overhaul for 10 years and they have been in operation 25 years.

Mr. SKEEN. I think you have a good plan.

Mr. ROGERS. In addition, we have asked in this budget for $434,000 for other maintenance. Part of that increase was to move, once the chillers were overhauled, to a constant maintenance program. We don't have a maintenance program now. We don't have a maintenance program on the elevators and we don't have a maintenance program on the chiller system.

Mr. SKEEN. This is for a central complex?

Mr. ROGERS. Yes, the main Treasury and the Annex buildings.

Mr. SKEEN. Treasury and the Annex?

Mr. ROGERS. Yes sir.

Mr. SKEEN. You have had no maintenance?

Mr. ROGERS. None whatsoever except for reactive maintenance.

Mr. SKEEN. How has that been handled?

Mr. ROGERS. Reactive, something breaks down, then somebody comes along to repair the systems. We have two elevator engineers for the entire operation of the two buildings. What I propose to do is at least have a contract, for people who can on a constant basis maintain them. Then there won't be so many breakdowns.

Mr. SKEEN. It would seem prudent to overhaul your policy on management with a building that old.

Mr. ROGERS. We have presently in the Main Treasury Complex two separate buildings. The first building was the East Side, built in 1836. Then there was a long span of time, not until 1854 did they begin additional construction—1854 to 1869—on the remaining structure.

When you look at the air-conditioning system, we have three separate systems, almost four—a four-pipe cooling system, a forced air system, and window air conditioning units. My predecessor, I think, came before the committee and talked about a phased-in plan that would take 20 percent of the building at a time and move toward a

central four pipe system throughout. I have looked at that plan and I just don't think that in terms of the cost, and the disruption, that it is prudent to proceed with anything that large.

I mean, to shut down and to shuffle our people around, we don't have spaces really to shuffle them to other locations. What we have done is to try gradually to expand the four-pipe system in smaller increments.

Mr. SKEEN. Does GSA do any of this?

Mr. ROGERS. Not unless we ask them to do some work and, if we do, we have to pay them. The buildings are totally out of their control and have been for some time.

SYNFUELS CORPORATION

Mr. SKEEN. Under the terms of the continuing resolution, Treasury had to assume the responsibilities of overseeing the previous commitment of the Synfuels Corporation. Have you budgeted for that?

Mr. ROGERS. No, there is no money in the budget. The Congress appropriated $10 million for the shutdown of the Synfuels Corporation.

Mr. SKEEN. You assumed that?

Mr. ROGERS. No, we have not. Those funds for Synfuels, when their board existed, were to pay for lump sum annual leave, payments for termination of their employees, and to work out a buyout of the lease space. With the new bill, the Secretary of the Treasury would become head of the corporation, which he did in the middle of February. By April 18th, the corporation would be dissolved and the residual responsibility would be assumed by the Department.

The residual responsibility, which we estimate to require about eight to ten people, who will actually monitor the contracts that are still in place and that will extend through FY 1991, is not budgeted for.

Now, we did get a windfall, so to speak, of, at least from my point of view it was a windfall, from the assumption of the Synfuels Corporation assets when it was terminated and the Secretary took over. Their assets included to be a large amount of furniture, basically systems furniture. Now, when my predecessor spoke about renovating the Annex, he talked about a cost of about $6 million to do so. Part of that, as I recall, was $2 million for systems furniture. What I have done is have Synfuels excess the furniture to the Department. I am going to hold on to it, so that when we do get into the Annex, we don't have to buy furniture. I estimate our cost for the entire renovation won't exceed $2 million, so we do have a windfall for the Department saving that furniture.

Mr. SKEEN. At this point you are not anticipating a request for additional funds?

Mr. ROGERS. Not at the present time. We will try to do it within our current resources, we are going to try to balance. If it proves to be the case, I won't hesitate to say that we need the funding for Synfuels activities.

Mr. SKEEN. You don't have any idea what that might be?

Mr. ROGERS. Eight to ten people, maybe $300,000 total.

FEDERAL FINANCING BANK ACTIVITIES

Mr. SKEEN. Is the Federal Financing Bank's administration, staffing, and other costs off budget as considered by OMB?

Mr. ROGERS. They were off budget. Basically what happens is that in coordinating the borrowing programs for different government agencies, for example, the Farmers Home Administration, what would happen is that the Treasury, in essence the Federal Financing Bank, would charge a fee above the Treasury lending rate, one-eighth of a point. We then would take from that——

Mr. SKEEN. For your services?

Mr. ROGERS. Yes. It only represented $2 million, whereas, the actual one-eighth percent fee would return somewhere around $223 million. So all the remaining amount from the fee would be returned to the general fund. What they have done in the legislation is propose to put it on budget, report the Administrative expenses there and continue the receipts from the fee to be returned to the general fund in Treasury.

Mr. SKEEN. Has OMB done this, to your knowledge, in many cases where we had so many off budget items of this kind?

Mr. ROGERS. I can't answer that question. I only know of this case.

Mr. SKEEN. I don't know what kind of appropriations problem we are getting into here. At least we know where the money is.

Mr. ROGERS. Basically, it is now being put on budget. For example, let's say they raised the fee two points, or up to 50 basic points, that would be simply a contribution to the deficit. As far as I am concerned, it is an accounting transaction because you are taking one governmental transfer back to the general fund. I wasn't so happy about having the $2 million included in the Departmental Offices appropriation.

Mr. SKEEN. I can understand that. You have enough to worry about up to this point.

Thank you, Mr. Rogers.

Mr. ROYBAL. Mr. Akaka.

TOTAL PUBLIC DEBT

Mr. AKAKA. Thank you very much. Mr. Rogers, one of your missions is to manage the fiscal operation of the government as well as to take care of the public debt. What is the public debt at this time?

Mr. ROGERS. I am afraid I can't answer that question exactly. I will be happy to provide for the record exactly what it is.

[The information follows:]

FEDERAL DEFICIT

The projected total public debt is estimated to be $2.1 trillion at the end of FY 1986.

PERMANENT POSITION TRANSFER

Mr. AKAKA. More specifically, I wanted to ask you questions about your statement requesting 19 full time positions on your per-

manent positions, to be transferred from the reimbursable to full time permanent status. What is the basis for this?

Mr. ROGERS. Basically, those positions were funded through the Department's appropriations as a reimbursement from the Federal Financing Bank when it was off budget. That account reimbursed Salaries and Expenses for 19 of those positions. By placing the $2 million into the direct appropriation, those can no longer be reimbursed. What we are doing is reimbursing ourselves so we have asked for them to become full time permanent direct positions.

GRAMM-RUDMAN-HOLLINGS REDUCTION IMPACT

Mr. AKAKA. It is very evident that the Treasury Department is personnel intensive through all the agencies within the Treasury Department. Knowing that, many of the departments and agencies will be affected by Gramm-Rudman, what impact will Gramm-Rudman have on you?

Mr. ROGERS. Our impact from Gramm-Rudman is a $3.3 million reduction. We have not had to reduce or have any sort of RIF of employees, but rather, since we have under-utilized positions, basically, that growth which in the first quarter has been so low, we have been able to finance a large portion of that reduction from those positions.

Now, quite honestly, as certain positions become available, I may extend them for one month being vacant, or two weeks—we play around with that—in order to effect the savings. The largest area of reductions, obviously, as you have identified, is in personnel compensation. Now, out of our reduction, I believe our personnel is close to $1.9 million of that $3.3 million Gramm-Rudman reduction.

Mr. AKAKA. Thank you very much.

Mr. ROGERS. Thank you.

FY 1987 INCREASE

Mr. ROYBAL. I would like to go back to the increase of $29 million and clarify that. I don't want to leave the impression that it is simply an increase. Is it not true that the $29,109,000 increase includes approximately $23 million for the International Affairs?

Mr. ROGERS. Yes, it does. The $23.5 million is the International Affairs appropriation that we are proposing to merge with the Salaries and Expenses appropriation.

Mr. ROYBAL. So, in effect, the actual increase is in the neighborhood of $5.5 million?

Mr. ROGERS. That is correct, sir.

Mr. ROYBAL. Are there any other questions?

Mr. Rogers, we would like to thank you and your colleagues for your testimony this morning.

Mr. ROGERS. Thank you, Mr. Chairman.

Mr. ROYBAL. The committee is in recess until 2:00 this afternoon.

[The justifications follow:]

Departmental Offices, Salaries and Expenses 1/

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1986
(Dollars in thousands)

	Permanent Positions	Average Positions	Amount
FY 1986 Appropriation (P.L. 99-190 Continuing Resolution through 9/30/86)	1,245	1,218	$76,716
Adjustment:			
(1) Reduction Under P.L. 99-177	---	---	-3,299
Proposed Authorized Level for FY 1986	1,245	1,218	73,417
Estimate, FY 1987	1,264	1,228	$80,084

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FOR FISCAL YEAR 1987

	Actual FY 1985		Authorized Level FY 1986		Budget Estimate FY 1987		Increase (+) or Decrease (-) for FY 1987					
							Total Changes		Program Changes		Other Changes	
	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount
1. Secretarial Policy and Program Development	427	$20,307	436	$21,143	433	$21,241	-3	$+98	---	$ ---	-3	$+98
2. Inspector General	119	4,903	117	4,955	114	4,737	-3	-218	---	---	-3	-218
3. International Affairs	243	13,448	236	13,242	233	13,111	-3	-131	---	---	-3	-131
4. Departmental Management and Administration	347	26,095	351	23,817	351	26,130	---	+2,313	---	-8	---	+2,321
5. Building Maintenance and Operations	77	10,019	78	9,577	78	12,215	---	+2,638	---	+434	---	+2,204
6. Repairs and Improvements	---	573	---	683	---	650	---	-33	---		---	-33
7. Federal Financing Bank Activities	---	---	---	---	19	2,000	+19	+2,000	+19	+2,000	---	---
Unobligated balance	---	3,585	---	---	---	---	---	---	---	---	---	---
Total appropriation, authorized level and budget estimate	1,213	$78,930	1,218	$73,417	1,228	$80,084	+10	$+6,667	+19	$+2,426	-9	$+4,241
Permanent positions established	(1,282)		(1,245)		(1,264)		(+19)		(+19)		(---)	

1/ The activities financed under the Department of the Treasury, International Affairs Appropriation in FY 1985 and 1986 are presented in this budget request and financed in this account in FY 1987.

February 5, 1986

Departmental Offices, Salaries and Expenses

Impact of
FY 1986 Gramm-Rudman-Hollings Budget Reduction

The Gramm-Rudman-Hollings Act is resulting in a reduction of $3,299,000 for Departmental Offices below the FY 1986 Continuing Resolution level of $76,716,000. The impact of this reduction will be:

- The underutilization or underfunding of at least 40 average positions in FY 1986. This will occur through the use of attrition and non-funding of average positions. This action will restrict office operations and the Departmental Offices' ability to perform its responsibilities in areas such as tax and economic policy, and international and domestic finance.
- The summer employment program will be reduced or eliminated.
- The level of travel will be curtailed.
- Representation expenditures will be reduced.
- Spending in other areas such as printing, supplies, building maintenance, research contracts and other services will be restricted.

February 5, 1986

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987
(Dollars in thousands)

	Activity 1			Activity 2			Activity 3			Activity 4			Activity 5			Activity 6			Activity 7			Total		
	Perm Pos.	Ave. Pos.	Amount	Perm Pos.	Ave. Pos.	Amount	Perm Pos.	Ave. Pos.	Amount	Perm Pos.	Ave. Pos.	Amount	Perm Pos.	Ave. Pos.	Amount	Perm Pos.	Ave. Pos.	Amount	Perm Pos.	Ave. Pos.	Amount	Perm Pos.	Ave. Pos.	Amount
Program Changes:																								
Program increases:																								
1. Facilities maintenance contracts	—	—	$ —	—	—	$ —	—	—	$ —	—	—	$ —	—	—	$ 434	—	—	$ —	—	—	$ —	—	—	$ 434
2. Federal Financing Bank Activities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	19	19	2,000	19	19	2,000
Program decreases:																								
1. Insurance claims and indemnities	—	—	—	—	—	—	—	—	—	—	—	-8	—	—	—	—	—	—	—	—	—	—	—	-8
Subtotal, Program Changes	—	—	$ —	—	—	$ —	—	—	$ —	—	—	$ -8	—	—	$ 434	—	—	$ —	19	19	$2,000	19	19	$2,426
Other Changes:																								
Increases necessary to maintain current levels:																								
1. Employee Compensation Fund	—	—	$ —	—	—	$ —	—	—	$ —	—	—	$ 94	—	—	$ —	—	—	$ —	—	—	$ —	—	—	$ 94
2. Health Benefits Increase	—	—	34	—	—	9	—	—	20	—	—	37	—	—	—	—	—	—	—	—	—	—	—	100
3. Medicare tax	—	—	1	—	—	1	—	—	2	—	—	1	—	—	—	—	—	—	—	—	—	—	—	5
4. Travel	—	—	21	—	—	5	—	—	19	—	—	8	—	—	—	—	—	—	—	—	—	—	—	53
5. Transportation of things	—	—	—	—	—	—	—	—	18	—	—	—	—	—	—	—	—	—	—	—	—	—	—	18
6. GSA Space Rental	—	—	—	—	—	—	—	—	—	—	—	—	—	—	460	—	—	—	—	—	—	—	—	460
7. Telecommunications	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,390	—	—	—	—	—	—	—	—	1,390
8. Equipment rental	—	—	—	—	—	—	—	—	—	—	—	35	—	—	—	—	—	—	—	—	—	—	—	35
9. Utilities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	55	—	—	—	—	—	—	—	—	55
10. Printing	—	—	8	—	—	—	—	—	—	—	—	30	—	—	—	—	—	—	—	—	—	—	—	38
11. Data Processing Contracts	—	—	—	—	—	—	—	—	—	—	—	43	—	—	—	—	—	—	—	—	—	—	—	43
12. Overseas Operating Costs	—	—	—	—	—	—	—	—	51	—	—	—	—	—	—	—	—	—	—	—	—	—	—	51
13. Building Maintenance	—	—	—	—	—	—	—	—	—	—	—	—	—	—	30	—	—	—	—	—	—	—	—	30
14. Equipment Maintenance	—	—	—	—	—	—	—	—	—	—	—	42	—	—	—	—	—	—	—	—	—	—	—	42
15. Supplies	—	—	—	—	—	—	—	—	—	—	—	39	—	—	—	—	—	—	—	—	—	—	—	39
16. Services and Contracts	—	—	—	—	—	—	—	—	—	—	—	165	—	—	—	—	—	—	—	—	—	—	—	165
17. Maintaining FY 1986 program levels reduced by P.L. 99-177	—	—	290	—	—	1	—	—	13	—	—	2,726	—	—	269	—	—	—	—	—	—	—	—	3,299
Subtotal, Increases to Maintain Current Levels	—	—	$ 354	—	—	$ 16	—	—	$ 123	—	—	$3,230	—	—	$2,794	—	—	$ —	—	—	$ —	—	—	$5,917

Departmental Offices, Salaries and Expenses

SUMMARY DISTRIBUTION OF CHANGES REQUESTED FOR FISCAL YEAR 1997 (continued)
(Dollars in thousands)

	Activity 1			Activity 2			Activity 3			Activity 4			Activity 5			Activity 6			Activity 7			Total		
	Perm Pos.	Ave. Pos.	Amount	Perm Pos.	Ave. Pos.	Amount	Perm Pos.	Ave. Pos.	Amount	Perm Pos.	Ave. Pos.	Amount	Perm Pos.	Ave. Pos.	Amount	Perm Pos.	Ave. Pos.	Amount	Perm Pos.	Ave. Pos.	Amount	Perm Pos.	Ave. Pos.	Amount
Reductions, nonrecurring costs and savings:																								
1. Nonrecurring costs associated with Treasury Operations Center	—	—	$ —	—	—	$ —	—	—	$ —	—	—	$ -999	—	—	$ —	—	—	$ —	—	—	$ —	—	—	$ -999
2. Nonrecurring costs associated with Repairs and Improvements projects	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-33	—	—	—	—	—	-11
3. Reduction in average salaries	—	-3	-256	—	-3	-234	—	-3	-254	—	—	—	—	—	—	—	—	—	—	—	—	—	-9	-744
Subtotal, Reductions, nonrecurring costs and savings	—	-3	$-256	—	-3	$-234	—	-3	$-254	—	—	$ -999	—	—	$ —	—	—	$ -33	—	—	$ —	—	-9	$-1,676
Total, Other Changes	—	-3	$ 98	—	-3	$-218	—	-3	$-131	—	—	$2,321	—	—	$2,304	—	—	$ -33	—	—	$ —	—	-9	$ 4,241
Total increases or decreases compared with level authorized under FY 1996 proposed authorized level.	—	-3	$ 98	—	-3	$-218	—	-3	$-131	—	—	$2,313	—	—	$2,439	—	—	$ -33	19	19	$2,000	19	10	$ 4,667

February 5, 1996

Departmental Offices, Salaries and Expenses

SUMMARY JUSTIFICATION OF THE FY 1987 BUDGET ESTIMATE

General Statement

The Departmental Offices function of the Treasury Department maintains a basic mission of providing support to the Secretary in his roles as the chief financial officer of the Government, major policy advisor to the President and executive director of the Treasury Department. The Secretary's responsibilities include: recommending and implementing United States' domestic and international economic policy, fiscal policy and tax policy; managing the fiscal operations of the Government; managing the public debt; overseeing the major law enforcement functions carried out by the Treasury Department; serving as the United States' representative to the various international financial organizations; and directing the general administrative operations of the Treasury Department.

In support of the Secretary, the Departmental Offices function provides policy formulation and implementation in areas such as tax and economic affairs, trade and investment policies, United States' budget matters, public debt management, government financial operations and general fiscal policy. This function also provides advice and technical assistance on administrative and legislative programs and establishes and coordinates Departmental administrative policies in areas such as budget, accounting, personnel, procurement, information systems development and management, telecommunications, and equal employment opportunity.

The operations of the Departmental Offices are divided into seven major activities. The role of each of these activities is discussed below.

1. **Secretarial Policy and Program Development** - This activity includes the immediate offices of the Secretary and Deputy Secretary, and staff offices responsible for legal counsel, Treasury law enforcement activities, domestic and international tax policy, economic policy, general fiscal policy and debt management.

2. **Inspector General** - This activity is responsible for developing and maintaining systems for audits and internal investigations of Treasury operations in Departmental Offices and the non-enforcement bureaus.

February 5, 1986

SUMMARY JUSTIFICATION OF THE FY 1987 BUDGET ESTIMATE (continued)

3. **International Affairs** - This activity covers a wide range of staff research and analysis functions dealing with international trade and investment, international monetary affairs, development financing policy, and general economic research into international financial issues.

4. **Departmental Management and Administration** - This activity includes functions concerned with the general administrative management and oversight of the Treasury bureaus and the administration of the Departmental Offices function. These responsibilities include: financial management, personnel management, program and management analysis, procurement operations, equal employment opportunity programs, automated systems development and management and other administrative activities.

5. **Building Maintenance and Operations** - Under the Federal Property and Administrative Services Act of 1949 (as amended), the Treasury Department has direct operational control over the Main Treasury Building and Annex. Services that otherwise would be provided by the General Services Administration (such as maintenance and utility services) are provided for Treasury directly through the Salaries and Expenses appropriation. This activity includes the staff and funding needed to conduct these operations.

6. **Repairs and Improvements** - This activity includes the program for repairs and selected improvements to maintain the Main Treasury and Annex buildings.

7. **Federal Financing Bank Activities** - Historically, administrative costs for Federal Financing Bank activities have been financed through reimbursable agreements. In FY 1987, the Administration is seeking a direct appropriation of $2 million and 19 average positions in order to reflect more accurately the cost of Federal Financing Bank administrative activities and to provide Congress and the Executive Branch with more oversight over Federal Financing Bank activities.

SUMMARY JUSTIFICATION OF THE FY 1987 BUDGET ESTIMATE (continued)

The FY 1987 budget requirements for the Departmental Offices include 1,264 authorized positions, 1,228 average positions, and $80.1 million -- an increase of $6.7 million, 19 authorized positions and 10 average positions above the resource levels authorized under the proposed FY 1986 level. The Departmental Offices' FY 1987 budget request reflects Presidential initiatives to restrain Federal spending wherever possible, reduce the level of Federal civilian employment, utilize available staff to perform required workloads and fund increases only in the highest priority areas.

The net requested increase is comprised of the following items:

-- $2.4 million in program changes:

- An increase of $2 million, 19 authorized positions and 19 average positions to establish a direct appropriation to finance the salaries and expenses activities for the Federal Financing Bank;
- An increase of $434,000 for building maintenance and operations requirements; and
- A program decrease of $8,000 for insurance claims and indemnities.

-- $5.9 million for increases for inflationary cost increases and previously approved programs.

-- $1.7 million in reductions, nonrecurring costs and savings:

- $999,000 in nonrecurring costs associated with the special telecommunications center;
- $33,000 in nonrecurring costs associated with the Repairs and Improvements program; and
- $744,000 and 9 average positions as part of the Administration's effort to reduce Federal employment and to bring the Departmental Offices' average position level more in line with actual staffing levels. This $744,000 reduction reflects the elimination of 9 average positions and the non-funding of an additional 9 average positions.

February 5, 1986

Department of the Treasury

[OFFICE OF THE SECRETARY] DEPARTMENTAL OFFICES

Federal Funds

General and special funds:

SALARIES AND EXPENSES

For the necessary expenses of [the Office of the Secretary] Departmental Offices including operation and maintenance of the Treasury Building and Annex; hire of passenger motor vehicles; maintenance, repairs and improvements of, and purchase of commercial insurance policies for real properties leased or owned overseas, when necessary for the performance of official business; not to exceed [$22,000] $95,000 for official reception and representation expenses; not to exceed $200,000 for unforeseen emergencies of a confidential nature, to be allocated and expended under the direction of the Secretary of the Treasury and to be accounted for solely on his certificate; not to exceed [$693,000] $650,000 to remain available until expended, for repairs and improvements to the Main Treasury Building and Annex, [$54,274,000] $80,084,000, of which $2,000,000 shall be for salaries and expenses of the Federal Financing Bank. (31 U.S.C. 301, 332, 325(c); 5 U.S.C. 301.)

Note: A regular 1986 appropriation for this account had not been enacted at the time this budget was prepared. A continuing resolution (P.L. 99-190) provides funds to the extent and in the manner provided for in the conference version of H.R. 3036, Treasury, Postal Service and General Government Appropriations Act, 1986, as amended in P.L. 99-190.

Explanation of Appropriation Language Changes for Fiscal Year 1987:

In FY 1987, the Administration is seeking a direct appropriation to finance salaries and expenses for the Federal Financing Bank.

February 5, 1986

Departmental Offices, Salaries and Expenses

SUMMARY OF EMPLOYMENT
(Number of Average Positions)

	Actual 1985	Estimated 1986	Estimated 1987	Increase (decrease) 1987 Total Changes	Increase (decrease) 1987 Program Changes	Increase (decrease) 1987 Other
Statutory executive positions	12	12	12	---	---	---
Policy/program professional staff ..	423	424	434	+10	+14	-4
Administrative staff	311	313	311	-2	---	-2
Secretarial and clerical	367	368	370	+2	+5	-3
Crafts and custodial	71	71	71	---	---	---
Subtotal	1,184	1,188	1,198	+10	+19	-9
Part-time & temporary positions (average)	29	30	30	---	---	---
Total average positions	1,213	1,218	1,228	+10	+19	-9

February 5, 1986

I. Activity Summary

Secretarial Policy and Program Development - This activity encompasses those organizations that directly support the Secretary and other senior officials in formulating and analyzing domestic and international economic policy and in overseeing its implementation. The primary responsibilities of these organizations include: formulating and recommending United States' domestic and international tax and economic policy; monitoring domestic financial operations of the Government, including government financing, capital markets policy, intergovernmental fiscal and debt management; overseeing fiscal operations of the United States' Government; providing legal counsel for the Departmental Offices and overseeing the legal staff of the entire Department; serving as legislative liaison and providing relations with the media and the public; and overseeing Treasury's law enforcement responsibilities.

A summary of the budget levels requested for this activity is shown in the following table:

(Dollars in thousands)

	Adjusted FY 1986 1/		FY 1987 Request		FY 1987 Program Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
Secretarial Policy and Program Development:						
a. Executive Direction	33	$ 1,729	33	$ 1,729	---	$---
b. Public, Legislative and Intergovernmental Affairs ...	56	2,244	56	2,244	---	---
c. Legal Staff	70	3,416	70	3,416	---	---
d. Enforcement	39	2,149	39	2,149	---	---
e. Tax Policy	117	6,018	117	6,018	---	---
f. Under Secretary for Finance 2/.	118	5,687	118	5,687	---	---
Total	433	$21,241	433	$21,241	---	$---

No program increases are requested for this activity for FY 1987.

1/ Reflects adjustments for inflationary cost increases and other non-program changes occurring in FY 1987.

2/ Includes resources for Fiscal Policy, Economic Policy, Domestic Finance and the Treasurer of the United States.

I. Activity Summary (continued)

Inspector General - The Office of the Inspector General was created by a Treasury Department order in June, 1978. The Office is organizationally independent of all offices and bureaus within the Department and reports directly to the Secretary and Deputy Secretary. Its responsibilities include oversight of the Department's non-enforcement bureaus and are comprised of the following: receiving and analyzing allegations of illegal acts or violations of standards of conduct by Treasury employees; initiating, organizing, directing and controlling investigations of senior Treasury and bureau officials; providing leadership and professional assistance for and conducting reviews of Treasury bureaus' internal audit and investigation services; providing audit and investigation services directly to the Departmental Offices and other bureaus designated by the Secretary or Deputy Secretary; and representing the Department in audit matters before the General Accounting Office and other concerned parties.

A summary of the budget levels requested for this activity is shown in the following table:

(Dollars in thousands)

	Adjusted FY 1986 1/		FY 1987 Request		FY 1987 Program Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
Inspector General	114	$4,737	114	$4,737	---	$---

No program increases are requested for this activity for FY 1987.

1/ Reflects adjustments for inflationary cost increases and non-program changes occurring in FY 1987.

February 5, 1986

I. Activity Summary (continued)

International Affairs - This activity includes those offices responsible for providing staff analysis and support for the Secretary and other senior officials involved in formulating and implementing international economic and financial policies. The issues involved within this activity include: international monetary affairs; international development financing policy and United States' policy toward and participation in the work of the various international financial organizations; international economic analysis; international trade and investment policy; financial aspects of commodities and natural resources policy and relations with the oil-producing countries of the Arabian peninsula.

A summary of the budget levels requested for this activity is shown in the following table:

(Dollars in thousands)

	Adjusted FY 1996 1/		FY 1997 Request		FY 1997 Program Changes	
International Affairs:	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
a. Assistant Secretary (International Affairs)	20	$ 1,389	20	$ 1,389	---	$---
b. Arabian Peninsula Affairs	42	1,987	42	1,987	---	---
c. Trade and Investment Policy	35	2,098	35	2,098	---	---
d. International Monetary Affairs ..	68	4,594	68	4,594	---	---
e. Developing Nations	68	3,143	68	3,143	---	---
Total.....	233	$13,111	233	$13,111	---	$---

No program increases are requested for this activity for FY 1997.

1/ Reflects adjustments for inflationary cost increases and non-program changes occurring in FY 1997.

February 5, 1996

I. Activity Summary (continued)

Departmental Management and Administration - The operations conducted within this activity are concerned with the dual responsibility of providing overall administrative control and guidance to the Treasury Department bureaus and a broad range of administrative services to the Departmental Offices as a separate bureau of the Department. At the Departmental level, this activity includes the general oversight and management provided by the Assistant Secretary (Management) in the areas of Departmental budget, procurement and personnel policy and coordination; oversight of the Department's information systems development; and analysis of general program operations throughout the Department. At the bureau level, services such as budget and accounting, payroll, personnel management, records management, procurement operations, computer operations and automated data processing development are performed.

This activity's budget request for FY 1987 includes a program reduction of $9,000 in the area of insurance claims and indemnities which will not be required in FY 1987. In addition, the budget request includes net nonrecurring cost savings of $899,000 related to the Treasury Operations Center.

The following table displays the funding for these operations in FY 1986 and 1987 by sub-activity.

I. Activity Summary (continued)

(Dollars in thousands)

	Adjusted FY 1986 1/		FY 1987 Request		FY 1987 Program Changes	
	Ave.	Pos. Amount	Ave.	Pos. Amount	Ave.	Pos. Amount
Departmental Management and Administration:						
a. Assistant Secretary (Management)	5	$ 296	5	$ 296	---	$---
b. Departmental Management	95	4,730	95	4,730	---	---
c. Departmental Information Systems	31	1,699	31	1,699		---
d. Departmental Finance and Planning	21	1,062	21	1,062	---	---
e. Administration	146	6,727	146	6,719	---	-8
f. Automated Systems Division	53	8,274	53	8,274	---	---
g. Centralized Services	---	3,360	---	3,360	---	---
Total	351	$26,138	351	$26,130	---	$ -8

No program increases are requested for this activity in FY 1987. The program change noted is a reduction of $8,000 in the area of insurance claims and indemnities which will not be required in FY 1987.

1/ Reflects adjustments for inflationary cost increases and other non-program changes occurring in FY 1987.

February 5, 1986

I. Activity Summary (continued)

Building Maintenance and Operations - Under the Federal Property and Administrative Services Act of 1949 (as amended), the Treasury Department has direct operational control over the Main Treasury Building and Annex. Within this activity such functions as painting, plastering, mechanical and janitorial services are performed. In addition, funds are budgeted within this activity for payments for space rental and utilities.

The following table displays the funding for these operations in FY 1986 and 1987 by sub-activity.

(Dollars in thousands)

	Adjusted FY 1986 1/		FY 1987 Request		FY 1987 Program Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
Building Maintenance and Operations:						
a. Facilities Maintenance	78	$ 3,909	78	$ 4,343	---	$+434
b. Space Rental	---	2,095	---	2,095	---	---
c. Utilities	---	5,777	---	5,777	---	---
Total	78	$11,781	78	$12,215	---	$+434

The FY 1987 request for this activity includes an increase of $434,000 to support facilities maintenance contracts for the maintenance and upkeep of the Treasury complex. These facilities' improvements, which will provide a safe and hygienic work environment, involve maintaining and repairing the heating, ventilating and air-conditioning systems; providing adequate cleaning and janitorial services; and repairing and maintaining Main Treasury and Annex elevators to minimize breakdowns.

1/ Reflects adjustments for inflationary cost increases occurring in FY 1987.

I. Activity Summary (continued)

Repairs and Improvements - In addition to the operating responsibilities noted in the preceding activity, Treasury also has responsibility for repairs and improvements to these buildings. The Main Treasury Building was constructed between 1839 and 1842, with extensions in 1861, 1864 and 1869. The Treasury Annex was constructed in 1919. Both buildings have been in continuous use since their construction, and the Main Treasury Building is designated as a national historic landmark. Funds budgeted for this activity will permit the Departmental Offices to overhaul two main carrier chillers (due to serious failure rates); remove asbestos from the two main steam rooms; and replace six potentially hazardous transformers insulated with Polychlorinated Biphenyls (PCB) in the Main Treasury Building. If this insulation burns, it is transformed into a toxic gas.

The following table displays the funding for these operations in FY 1986 and 1987:

(Dollars in thousands)

	Adjusted FY 1986 1/		FY 1987 Request		FY 1987 Program Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
Repairs and Improvements	---	$650	---	$650	---	$---

No program increases are requested for this activity in FY 1987.

1/ Reflects adjustments for non-program changes occurring in FY 1987.

February 5, 1986

I. Activity Summary (continued)

Federal Financing Bank Activities - Historically, administrative costs for Federal Financing Bank activities have been financed through reimbursable agreements. In FY 1997, the Administration is seeking a direct appropriation of $2 million and 19 average positions in order to reflect more accurately the cost of Federal Financing Bank administrative activities and to provide Congress and the Executive Branch with more oversight over Federal Financing Bank activities.

The following table displays the funding for these operations in FY 1996 and 1997:

(Dollars in thousands)

	Adjusted FY 1996		FY 1997 Request		FY 1997 Program Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
Federal Financing Bank Activities	---	$ ---	19	$2,000	+19	$+2,000

II. Other Changes
(Dollars in thousands)

	Increase
Total Other Changes requested in FY 1987	$4,241
Increases:	$5,917
1. **Employee Compensation Fund**	94
Increased costs of payments made to the Department of Labor for employee disability payments.	
2. **Health benefits increase**	100
Increased cost of the Government's share of employee health benefits from coverage cost increases.	
3. **Medicare tax**	5
Increased cost of the Government's share of payments to Medicare health insurance fund for employees.	
4. **Travel**	53
Increased cost of airfare, per diem and other transportation.	
5. **Transportation of things**	18
Increased cost of shipping and storage of items.	

II. Other Changes (continued)

		Increase
6.	**GSA Space Rental**	460
	Increased cost of rental rates for office space leased from the General Services Administration.	
7.	**Telecommunications**	1,390
	Increase for continuation of previously approved program (Digital Telecommunications System). Also includes increase in other telecommunications costs.	
8.	**Equipment rental**	35
	This item represents anticipated increases in the cost of automated data processing and other office equipment rentals.	
9.	**Utilities**	55
	This item is to fund anticipated increases for steam, electricity and gas in the Main Treasury Building and Annex.	
10.	**Printing**	38
	This item represents increased printing charges resulting from increasing labor, paper and commercial procurement costs.	

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II. Other Changes (continued)

	Increase
11. Commercial and other data processing costs	43
This increase represents data processing services provided by the Federal Reserve Board and other commercial organizations, the cost of which has increased steadily each year. These increased costs are passed on to the user.	
12. Overseas operating costs	51
This item represents administrative support for Treasury financial attaches stationed abroad.	
13. Building maintenance	30
This estimate is for increased maintenance costs of the Main Treasury Building and Annex.	
14. Equipment maintenance	42
This estimate is for increased maintenance costs of automated data processing and other office equipment.	
15. Supplies	39
This item represents the increased cost of office and ADP supplies.	

II. Other Changes (continued)

	Increase
16. Services, contracts and other categories	165
This item includes increased costs of such items as training, postage, ADP software and contracts for other services.	
17. Restoration of FY 1986 program levels reduced by P.L. 99-177	3,299
Restoration of funds eliminated in FY 1986 for reduction pursuant to P.L. 99-177 (Balanced Budget and Emergency Deficit Control Act of 1985).	

February 5, 1986

II. Other Changes (continued)

	Decrease
Reductions, Nonrecurring Costs and Savings:	-$1,676
1. **Nonrecurring costs associated with Treasury Operations Center**	-899
Reduction of $899,000 related to nonrecurring costs associated with special telecommunications center.	
2. **Nonrecurring costs associated with Repairs and Improvements projects**	-33
Nonrecurring costs associated with Repairs and Improvements Program.	
3. **Reduction in average positions**	-744
Reduction of $744,000 and nine average positions, and non-funding of an additional nine average positions, as part of the Administration's effort to reduce Federal employment and to bring the Departmental Offices' average position level more in line with actual staffing levels.	

DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
SALARIES AND EXPENSES

Standard Classification Schedule
(Direct obligations only)

	Actual FY 1985	Authorized Level FY 1986	Appropriation Request FY 1987	1987 Increase/ Decrease from FY 1986
Total number of permanent positions	1,282	1,245	1,264	+19
Average paid employment	1,213	1,219	1,229	+10
Object Classification		(Dollars in thousands)		
Personnel compensation:				
Permanent positions	$42,765	$42,821	$46,464	3,643
Positions other than permanent	1,013	927	926	-1
Other personnel compensation	1,169	1,345	1,344	-1
Special personal services compensation	457	357	357	—
Total personnel compensation	45,404	45,450	49,091	3,641
Personnel benefits	5,372	5,782	6,516	734
Benefits for former personnel	8	—	—	—
Travel and transportation of persons	979	1,151	1,296	145
Transportation of things	365	390	409	19
Rents, communications and utilities:				
Standard Level User Charges	1,469	1,610	2,095	485
Other rents, communications and utilities	5,551	5,469	6,995	1,526
Printing and reproduction	973	672	726	54
Other services	8,567	5,977	8,373	2,396
Supplies and materials	1,350	1,358	1,491	133
Equipment	4,733	4,867	2,443	-2,424
Lands and structures	573	683	650	-33
Insurance claims and indemnities	1	8	—	-8
Total obligations	$75,345	$73,417	$80,094	$6,667
Unobligated balance	3,585	—	—	—
Total Appropriation, Authorized Level and Budget Estimate	$78,930	$73,417	$80,094	$6,667

February 5, 1986

Departmental Offices, Salaries and Expenses

DETAIL OF PERMANENT POSITIONS

	Actual FY 1985	Authorized FY 1986	Estimate FY 1987
Executive Level 1	1	1	1
Executive Level 2	1	1	1
Executive Level 3	---	1	1
Executive Level 4	10	9	9
Executive Level 5	---	---	---
Subtotal	12	12	12
Senior Executive Service Level 6	---	---	---
Senior Executive Service Level 5	5	5	5
Senior Executive Service Level 4	81	80	80
Senior Executive Service Level 3	17	18	18
Senior Executive Service Level 2	8	9	9
Senior Executive Service Level 1	7	6	6
Subtotal	118	118	118
GS-18	1	1	1
GS-17	---	---	---
GS-16	---	---	---
GS/GM-15	168	165	166
GS/GM-14	152	146	148
GS/GM-13	136	131	134
GS-12	78	79	82
GS-11	60	62	63
GS-10	11	10	10
GS-09	94	89	90
GS-08	64	61	63

February 5, 1986

DETAIL OF PERMANENT POSITIONS (continued)

	Actual FY 1985	Authorized FY 1986	Estimate FY 1987
GS-7	124	116	120
GS-6	80	79	79
GS-5	49	47	47
GS-4	38	34	34
GS-3	19	18	19
GS-2	2	2	2
Subtotal	1,074	1,039	1,058
Ungraded	78	76	76
Total permanent positions	1,282	1,245	1,264
Unfilled positions, end of year	-119	-57	-66
Total permanent employment, end of year	1,163	1,188	1,198

Departmental Offices, Salaries and Expenses

AVERAGE GRADES AND SALARIES

	Actual FY 1985	Authorized FY 1986	Estimate FY 1987
Average ES salary	$67,656	$67,656	$67,656
Average GS grade	10.52	10.56	10.55
Average GS salary	$30,798	$31,106	$31,417
Average salary of ungraded positions	$11,661	$11,778	$11,896

February 5, 1986

CONSULTING AND RELATED SERVICES
(Dollars in thousands)

	Actual FY 1995	Authorized FY 1996	Estimate FY 1997
Consulting Services	$ 190	$ 52	$ 52
Management and Professional Services	---	---	---
Special Studies and Analyses	635	95	114
Total	$ 825	$ 147	$ 166

The Departmental Offices, Salaries and Expenses appropriation, employs the services of outside consultants to provide expertise, legal advice and guidance in tax policy issues such as: the Tax Reform proposal, domestic tax legislation relative to capital cost recovery; gross income value-added tax; fringe benefits; disability payments; windfall taxes; questions concerning tax policy and taxpayer behavior; and advice and assistance in the development of tools to improve the quality of data bases used for economic analysis of tax policies. Additional consulting services are sought on projects such as providing support for cash management improvement projects; the implementation and development of electronic financial systems for use by government agencies; advice and assistance on the public relations aspects of various economic, tax and domestic finance issues; guidance on the development of new consolidated financial reporting systems for the United States Government; and advice on employee mental health issues.

Departmental Offices contracts for special studies and analyses in the areas of automated data processing and software development, telecommunications engineering services, and cash management practices including credit scoring and loan forecasting models. Studies are also contracted for mathematical and statistical analyses and overall management of the Department.

TUESDAY, MARCH 4, 1986.

FEDERAL LAW ENFORCEMENT TRAINING CENTER

SALARIES AND EXPENSES

WITNESSES

FRANCIS A. KEATING II, ASSISTANT SECRETARY, ENFORCEMENT AND OPERATIONS, DEPARTMENT OF THE TREASURY

CHARLES F. RINKEVICH, DIRECTOR, FEDERAL LAW ENFORCEMENT TRAINING CENTER

DAVID W. McKINLEY, DEPUTY DIRECTOR, FEDERAL LAW ENFORCEMENT TRAINING CENTER

WILLIAM M. KELSO, ASSISTANT DIRECTOR, ADMINISTRATION, FEDERAL LAW ENFORCEMENT TRAINING CENTER

JOHN C. DOOHER, ASSISTANT DIRECTOR, WASHINGTON OFFICE, FEDERAL LAW ENFORCEMENT TRAINING CENTER

JILL E. KENT, DEPUTY ASSISTANT SECRETARY, DEPARTMENTAL FINANCE AND PLANNING, DEPARTMENT OF THE TREASURY

Mr. ROYBAL. The committee will now hear from the Federal Law Enforcement Training Center. You may proceed in any manner you may desire.

Mr. KEATING. At this time, as Assistant Secretary for Enforcement, and Operations, it is my pleasure to introduce to the committee, Mr. Charles Rinkevich, who is Director of the Federal Law Enforcement Training Center, Glynco Georgia. Mr. Rinkevich has an impressive record to detail to the committee regarding the accomplishments of the Center during the course of last fiscal year.

As a former law enforcement official and former U.S. Attorney, I have had some knowledge of the Center in the past. I have visited it recently, and speaking for the Department, I can say that we are very proud of the job that Director Rinkevich has done, and we ask the committee's indulgence to hear his report.

[The statement of Mr. Keating follows:]

THE DEPARTMENT OF THE TREASURY

FEDERAL LAW ENFORCEMENT TRAINING CENTER

INTRODUCTORY STATEMENT OF FRANCIS A. KEATING, II

ASSISTANT SECRETARY (ENFORCEMENT AND OPERATIONS)

FOR PRESENTATION TO THE SUBCOMMITTEE ON APPROPRIATION

Mr. Chairman and members of this Committee, I am pleased to appear before you today in support of the annual appropriation request of the Federal Law Enforcement Training Center for fiscal year 1987.

Before I comment on the Center's activities, I would like to introduce to the Committee, Charles F. Rinkevich, the Director of the Federal Law Enforcement Training Center. Director Rinkevich is accompanied by several senior members of the Center's staff whom he will introduce later. Also in attendance with us is Jill Kent, the Deputy Assistant Secretary for Departmental Finance and Planning.

Following my recent appointment as Assistant Secretary, one of my earliest acts was to visit the Center's facilities at Glynco and to become acquainted with its operations. I now can attest to the fact that the highly laudatory comments that I had heard about Glynco, indeed, are true. The Center is a remarkable facility in terms of its exceptional physical plant and its capability to provide quality, cost efficient law enforcement

training. At a time in our government's history when it especially is important to be cost conscious, the Center already has a demonstrated reputation for fiscal responsibility.

The Center recently completed its first decade of operation at Glynco, and I believe it would be appropriate to reflect briefly on its development and achievements.

The Center was created as a result of a Memorandum of Understanding with its participating organizations, whose collective determination was to improve the training of Federal law enforcement officers throughout this nation. The Department of the Treasury was identified as the lead agency for administering the Center's operations because of the Department's successful experience, through the Treasury Law Enforcement School, in meeting the training needs of its four enforcement bureaus. This program thus became the nucleus for the Center's concept of consolidated training which has expanded to include nearly all Federal organizations. A Board of Directors, representing the interests of entire law enforcement community, provides training program and policy direction.

Today, personnel from 59 Federal police and investigative agencies within all three branches of government are trained at Glynco. This includes mandatory training for individuals entering into the Federal service and advanced training for journey level personnel in order to prepare them to meet changing mission requirements and advances in technology. The breadth of training

provided and supported at Glynco encompasses the practical, everyday skills and knowledges that professional law enforcement officers need to execute effectively their statutory responsibilities. For example, training is provided in such areas as how to investigate sophisticated computer related crimes, executing a legal search warrant, exercising proper judgment in firing a weapon and intercepting the illicit flow of drugs and aliens into the United States.

The Glynco facility itself is first rate. This 1500 area campus-like setting is ideally suited for law enforcement training. Through consolidation of training at this site, there now is an estimated savings of $31 million to the American taxpayer. This has been achieved due to the closure of several duplicative and costly training locations previously operated around the country, and the economy in per diem expenses realized from the use of Glynco.

In response to special situations that have arisen in recent years, the Center has shown a capability and willingness to accept new responsibilities. In 1982 at the request of the President, a National Center for State and Local Law Enforcement Training was established. This effort capitalizes on the unique Federal expertise and resources that exist at Glynco for development and presentation of many specialized training programs. In a relatively short period of time, this program has become a keystone in the Administration's war on crime.

In 1985, the Center began conducting training at its satellite facility near Marana, Arizona. Principally, this location is being used to provide fully reimbursable training for the Bureau of Indian Affairs and tribal police officers from the Southwest United States.

During the past two years, the Center also has assisted the Department of State, at its request, in supporting special training programs for foreign officials directed at strengthening the efforts against international terrorism. In a similar vein, the Center developed and presented Federal Air Marshal training programs at the request of the Federal Aviation Administration. This program represents an excellent example of the Center's ability to quickly and to competently react to sudden crisis situations.

The pending appropriation request for fiscal year 1987 is $20,899 thousand. This funding will permit the Center to meet certain costs for training for all of its participating clientele and to continue to maintain the $100 million investment in facilities at Glynco. With this funding level, the Center can continue to meet its primary mission responsibilities. Other training requirements will be accommodated on a reimbursable basis as in the past.

Finally, I would point out that the Treasury Department is deeply committed to maintaining the excellence of the Federal Law Enforcement Training Center and to supporting its crucial role in American law enforcement. Having observed first-hand what is being achieved at Glynco, I can tell you that I am committed personally to this objective.

I will now ask Director Rinkevich to address in more detail the Center's appropriation request.

Mr. ROYBAL. Thank you very much.

Mr. RINKEVICH. Thank you, Secretary Keating.

Mr. Chairman and members of the committee, I am pleased to be here today to report on the operations of the Federal Law Enforcement Training Center and to support our appropriations request for FY 87.

At this time, I would like to introduce the representatives of the Center who have accompanied me. Mr. Willam M. Kelso, Assistant Director for Administration; and John C. Dooher, Assistant Director for our Washington Office.

As you know, the Center's mission is to provide basic and advanced training for the bulk of our nation's law enforcement personnel. We also support the training provided by our participating agencies that is specific to their individual needs. The interagency dimension of the Center provides us with diverse agency expertise and allows us to economically use this expertise to accommodate multiple agency training requirements.

Although the number of the Center's participating organizations has increased over the years from 17 to 59. In FY 1985, because of space limitations, the Center's Board of Directors deferred requests from two new Federal agencies for participating organization status. However, these agencies will be trained on a space available basis. The mere fact that more agencies wish to avail themselves of the Center's unique ability to provide quality training attests to Glynco's reputation. By any measure, Glynco continues to be one of the Federal Government's true success stories.

During FY 85, we trained over 16,000 students. This total included almost 15,000 students in Glynco's various basic, advanced and State and local programs; over 400 students at our satellite facility at Marana, Arizona; and nearly 800 students through export programs. Despite this consistent heavy workload, the Center continues to provide quality training and still is able to respond to the unique, and sometimes emergency needs of our agencies.

Often, requests to develop new training programs come to us under crises conditions with a short time frame for completion. For example, because of a dramatic increase in the personnel strength of the Immigration and Naturalization Service, the Center was asked to provide training for 1,000 additional Border Patrol agents in FY 85. This request required a rapid and innovative response. With the support and cooperation of the Immigration Service and Border Patrol, the Center was able to react to this unusual demand, enhance its facilities and staff, and provide the necessary training. I am proud to say that we accommodated the entire 1,000 new Border Patrol trainees at Glynco.

Additionally, in the fall of 1985, we received a request from the Federal Aviation Administration to develop an Air Marshal Training Program as part of the Administration's response to terrorist skyjacking incidents. Within a few short weeks, Glynco staff, working in conjunction with representatives from FAA, developed a five week program and began training at our Marana facility. We graduated the last of five classes of Air Marshals in December of 1985.

Glynco's positive response to these unique demands are direct benefits of a consolidated training center.

In May 1985, following the recommendations of an Internal Assessment Group that I commissioned, the Center moved into a reorganization to streamline its operational and administrative functions. The transition into the reorganization has been smooth and one of our major goals now is to increase our concentration on improving training programs. To this end, the Center has recently conducted several curriculum conferences, calling on the expertise of personnel from our various agencies to examine our training programs and update them as needed. In addition, we have established a Research and Evaluation Unit, which has the responsibility of conducting training related research and evaluating various aspects of our programs.

Mr. Chairman, I call your attention to the table on page 5 of my statement reflecting our workload statistics for FY 85, along with projections for FY 86 and FY 87. I will not go into this chart in great detail at this point, but I will be happy to answer any questions you may have concerning these statistics.

[The table follows:]

FEDERAL LAW ENFORCEMENT TRAINING CENTER
FUNDING AND WORKLOAD DATA
(Dollars in Thousands)

	1985		1986 1/		1987 1/	
Funding:						
Appropriated	$18,341		$17,803		$20,899	
Reimbursable	10,006		14,606		10,388	
TOTAL	$28,347		$32,409		$31,287	
Workload:	Students	Student Weeks	Students	Student Weeks	Students	Student Weeks
Criminal Investigator Basic	1,146	8,058	2,222	16,443	1,330	9,812
Police Basic	786	6,850	1,611	12,617	1,372	10,891
Police Integrated Basic	1,492	22,790	2,074	25,338	1,676	21,578
Follow-on Basic	3,443	13,095	4,442	16,110	3,217	11,862
Center Advanced	1,490	2,746	3,216	5,781	2,356	4,256
Agency Advanced	5,999	9,618	7,323	13,188	7,494	14,096
State and Local	1,766	1,950	2,094	2,589	2,118	2,637
TOTAL	16,122	65,107	22,982	92,066	19,563	75,162
Funded ARSP 2/		251		141		620 3/
Reimbursable ARSP		1,001		1,629		825
TOTAL		1,252		1,770		1,445
Full Time Equivalent		264		264		269

1/ FY 1986 and FY 1987 workload data are based on agency projections received in July 1985.

2/ ARSP - Average Resident Student Population.
3/ FY 1987 funded ARSP based on new policy of funding direct training costs only vice previous policy of funding student travel, food, lodging and direct training costs.

Mr. RINKEVICH. Like most agencies, we have yet to realize the full impact of the Gramm-Rudman-Hollings Act on the Center and its future. However, in compliance with the Act, the Center has absorbed a reduction in its FY 86 budget in the amount of $1,024,000; and we have had early indications of cutbacks in some training by our client agencies necessitated by their budget reductions.

Let me turn your attention to the Center's FY 87 budget request. This request reflects a fundamental change in our funding policy. In past years, the Center's appropriation included funds for student travel, meals, lodging and direct basic training costs. However, for FY 87, we are requesting funding for direct costs only for basic training. These direct costs include such items as class and student supplies, staff and faculty services, and operation of the Glynco facility. Under this policy, participating organizations are required to reimburse the Center for all student lodging and food costs, as well as to absorb the costs of student travel to and from Glynco.

Our appropriation request for FY 1987 is $20,899,000 and we contemplate $10,388,000 in reimbursable income to the Center for a total FY 1987 budget of $31,287,000. This will allow us to train over 19,500 students in the various programs as shown on the chart on Page 5.

In FY 79, Congress approved the use of $10.2 million of previously appropriated construction funds for repairs, alterations, and minor construction at Glynco. These funds now have been depleted, except for one claim pending in GSA. The FY 1986 salaries and expenses funding includes $2.1 million in "no year" funding to meet ongoing needs in this critical area.

In the budget request before you today, we are seeking an appropriation for $3 million in "no year" funding to assure the continued maintenance of the facility and provide a safe environment for students and staff. The "no year" funding is requested to provide adequate time for planning and completion of various projects.

I now would like to address several recent accomplishments of the Center which serve as background to this budget request.

The National Center for State and Local Training was established by President Reagan in 1982 and provides training for State and local law enforcement agencies in over 20 selected advanced subjects. The National Center receives broad support from the Federal law enforcement community as well as our colleagues from State and local agencies, both of whom provide subject matter experts for program development and instructional services.

The National Center has been so successful that requests for training often exceed the space available at Glynco. Thus, in addition to providing an opportunity to attend training at Glynco, some of these programs are conducted on an export basis at sites across the country. The funds included in our budget request will enable us to continue to support program administration, course development, Advisory Committee and other overhead expenses. Consistent with the shared funding concept that always has been part of our National Center, State and local agencies continue to be responsible for all expenses related to salaries, travel and per diem associated with this training.

In 1984, the Department of the Interior's Bureau of Indian Affairs requested that the Center manage the Indian Police Academy.

We are now conducting that training at a satellite location, the Pinal Air Park, near Marana, Arizona, approximately 25 miles north of Tucson. Because Marana is a contractor operated facility already being utilized for fire suppression training by the Federal agencies, the Center was able to negotiate an expansion of its capability to provide cost effective law enforcement training for the BIA.

In January 1985, the Center conducted its first 10 week basic Indian training program at Marana, and since that time, we have conducted several additional programs, including advanced BIA training as well as some short term Center and agency advanced training. During FY 85, a total of 420 students graduated from the Marana facility, including 240 students from the Indian Police Academy programs and 180 students from Center and Agency Advanced programs.

Marana in no way duplicates the special training features available at Glynco, but it does serve as an adequate satellite facility to meet the training requirements of the participating organizations who have personnel posted in the Western United States.

With the approval of Congress, the Administration initiated an Antiterrorism Assistance Program in late 1983. This program is designed to improve the capabilities of the civil authorities in friendly foreign countries so that they may better deal with the expansion of international terrorism. Responsibility for administering the program rests with the State Department's Office for Counter-Terrorism and Emergency Planning. In February 1984, at the State Department's request, the Center agreed to participate in this program predicated upon the availability of staff and facility resources.

The Assistance Program consists of three phases: consultation and visit to key United States facilities by senior officials from the participating country; selection or design of training programs relevant to a particular country's need; and implementation of the selected training.

During FY 85, Glynco hosted 10 foreign delegations of senior government representatives from a number of countries including Italy, Cameroon, Colombia, Greece, Israel, Portugal, Tunisia, Brunei, Honduras, and Denmark. These delegations participated in two day visits and briefings on potential areas of assistance and interagency cooperation. Center representatives also travelled to Portugal and Costa Rica to assess specific areas of needed training. Jointly, with the Office of State Security, the Center also conducted two programs in explosives recognition for the East Caribbean States and a security program for senior Egyptian personnel. Additionally, the Bureau of Alcohol, Tobacco and Firearms delivered explosives training to three groups from Egypt, Costa Rica and Colombia at Glynco.

Thus far, in FY 86, Portugal, Costa Rica, Honduras, Pakistan, Persian Gulf States and The Netherlands have received assistance from the Federal Law Enforcement Training Center, and we anticipate requests from several other countries for training during this fiscal year.

As a result of language in the FY 86 appropriation, the Center and Treasury officials have been working on a study and plan for

antiterrorism training for all Federal law enforcement personnel who have a need for it. It is important to note that, Glynco presently offers antiterrorism training in a number of basic programs. However, with the increased threat that we face, we believe it necessary to reevaluate that training. Primarily, this will involve recognition and familiarization training for some agencies, and first responder training for others. Other initial plans, being developed in cooperation with the Department of Justice and the FBI, will contain milestones for the identification of needs and provision of increased antiterrorist training for those of our participating organizations for whom it would be appropriate. A series of conferences with affected agencies will be held beginning in the next few weeks to develop these plans further.

In anticipation of the Center's increased involvement in antiterrorism training, I have also established a faculty committee to coordinate these conferences and assume responsibility for the identification, development, and implementation of courses and programs which will be incorporated into our ongoing curricula.

Mr. Chairman, as you know from earlier correspondence with Assistant Secretary Keating, the Department and the Center believe that our existing training delivery system can be responsive in implementing antiterrorism training and we will keep you informed on our progress.

The Center has made great strides in its ADP modernization efforts during this past year. We have appointed a full time Information Systems Officer and begun the design of a completely automated and integrated scheduling and training administration system. With the assistance of an interagency advisory committee, software is being designed and hardware specifications are being developed so that all the resources that are needed to support resident students are efficiently used. We have also made significant progress toward our objective of an automated testing and evaluation system that will eventually permit the on-line testing, scoring, and tracking of each student's academic performance. In this fiscal year, we will spend $625,000 on our ADP modernization project; equally distributed among the three categories of equipment, systems analysis and programming, and systems design and engineering.

Mr. Chairman, in closing, I want you to know that I strongly support the efforts of the Administration and this committee to control government expenditures. At the same time, I am committed to work toward the accomplishment of the Center's mission to provide the best possible training to the men and women who enforce our nation's laws. Substantial savings are already being realized through the operation of the Center as a consolidated training facility, and we are confident that our programs are meeting the needs of the participating organizations. Our budget request reflects a concern for fiscal restraint, as well as a commitment to quality training. I appreciate the continued support and guidance of this Committee and the excellent cooperation of the many law enforcement organizations we serve.

My colleagues and I now are available to answer any questions you may have concerning this request. Thank you.

[Statement of Mr. Rinkevich follows:]

CONSULTING AND RELATED SERVICES (continued)

The alternatives to the use of consulting services would be either to hire full-time staff for the projects involved or to have extensive retraining of on-board staff to enable them to perform the functions required. Such action has proved to be inefficient for many agencies. Since the agency needs specific expertise for only a short period of time, the newly hired or retrained personnel having skills in areas no longer required by the agency once the project is completed would be difficult to place in other appropriate positions. The use of consultants eliminates this inefficient use of agency personnel and frees up agency staff for high priority work projects for which they are qualified.

The Department of the Treasury

Federal Law Enforcement Training Center

Introductory Statement of

Director Charles F. Rinkevich

for Presentation to the Subcommittee on Appropriations

U.S. House of Representatives

Introduction

Mr. Chairman and Members of the Committee, I am pleased to be here today to report on the operations of the Federal Law Enforcement Training Center and to support our appropriation request for Fiscal Year 1987.

At this time, I would like to introduce the representatives of the Center who have accompanied me: William M. Kelso, Assistant Director for Administration; and John C. Dooher, Assistant Director for our Washington Office.

As you know, the Center's mission is to provide basic and advanced training for the bulk of our Nation's law enforcement personnel. We also support the training provided by our participating agencies that is specific to their individual needs. The

interagency dimension of the Center provides us with diverse agency expertise and allows us to economically use this expertise to accommodate multiple agency training requirements.

Participating Organizations

Although the number of the Center's participating organizations has increased over the years from 17 to 59, in FY 1985, because of space limitations, the Center's Board of Directors deferred requests from two new Federal Agencies for participating organization status. However, these agencies will be trained on a space available basis. The mere fact that more agencies wish to avail themselves of the Center's unique ability to provide quality training attests to Glynco's reputation. By any measure, Glynco continues to be one of the Federal Government's true success stories.

Workload

During FY 1985, we trained over 16,000 students. This total included almost 15,000 students in Glynco's various Basic, Advanced, and State and local programs; over 400 students at our satellite facility at Marana, Arizona; and nearly 800 students through export programs. Despite this consistent heavy workload, the Center continues to provide quality training and still is able to respond to the unique, and sometimes emergency, needs of our agencies.

Often, requests to develop new training programs come to us under crises conditions with a short timeframe for completion. For example, because of a dramatic increase in the personnel strength of the Immigration and Naturalization Service (INS), the Center was asked to provide training for 1,000 additional Border Patrol agents in FY 1985. This request required a rapid and innovative response. With the support and cooperation of the Immigration Service and Border Patrol, the Center was able to react to this unusual demand, enhance its facilities and staff, and provide the necessary training. I am proud to say that we accommodated the entire 1,000 new Border Patrol trainees at Glynco.

Additionally, in the fall of 1985, we received a request from the Federal Aviation Administraton (FAA) to develop an Air Marshal Training Program as part of the Administration's response to terrorist skyjacking incidents. Within a few short weeks, Glynco staff, working in conjunction with representatives from FAA, developed a five-week program and began training at our Marana facility. We graduated the last of five classes of Air Marshals in December 1985.

Glynco's positive response to these unique demands are direct benefits of a consolidated training center.

Organization

In May 1985, following the recommendations of an Internal Assessment Group that I commissioned, the Center moved into a

reorganization to streamline its operational and administrative functions. The transition into the reorganization has been smooth and one of our major goals now is to increase our concentration on improving training programs. To this end, the Center has recently conducted several Curriculum Conferences, calling on the expertise of personnel from our various agencies to examine our training programs and update them as needed. In addition, we have established a Research and Evaluation Unit, which has the responsibility of conducting training related research and evaluating various aspects of our programs.

Workload Statistics

Mr. Chairman, I call your attention to the table on Page 5 of my statement reflecting our workload statistics for FY 1985, along with projections for FY 1986 and FY 1987. I will not go into this chart in great detail at this point, but I will be happy to answer any questions you may have concerning these statistics.

Gramm-Rudman-Hollings Act

Like most agencies, we have yet to realize the full impact of the Gramm-Rudman-Hollings Act on the Center and its future. However, in compliance with the Act, the Center has absorbed a reduction in its FY 1986 budget in the amount of $1,024,000; and we have had early indications of cutbacks in some training by our client agencies necessitated by their budget reductions.

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FY 87 Budget Request

Let me turn your attention now to the Center's FY 1987 budget request. This request reflects a fundamental change in our funding policy. In past years, the Center's appropriation included funds for student travel, meals, lodging and direct basic training costs. However, for FY 1987, we are requesting funding for direct costs only for basic training. These direct costs include such items as class and student supplies, staff and faculty services, and operation of the Glynco facility. Under this policy, participating organizations are required to reimburse the Center for all student lodging and food costs, as well as to absorb the costs of student travel to and from Glynco.

Our appropriation request for FY 1987 is $20,899,000 and we contemplate $10,388,000 in reimbursable income to the Center for a total FY 1987 budget of $31,287,000. This will allow us to train over 19,500 students in the various programs as shown on the chart on Page 5.

Maintenance of Facility

In FY 1979, Congress approved the use of $10.2 million of previously appropriated constructon funds for repairs, alterations, and minor construction at Glynco. These funds now have been depleted, except for one claim pending in GSA. The FY

1986 salaries and expenses funding includes $2.1 million in no-year funding to meet ongoing needs in this critical area.

In the budget request before you today, we are seeking an appropriation of $3 million in no-year funding to assure the continued maintenance of the facility and provide a safe environment for students and staff. The "no-year" funding is requested to provide adequate time for planning and completion of various projects.

I now would like to address several recent accomplishments of the Center which serve as background to this budget request.

National Center for State & Local Training

The National Center for State and Local Training was established by President Reagan in 1982 and provides training for State and local law enforcement agencies in over 20 selected advanced subjects. The National Center receives broad support from the Federal law enforcement community as well as our colleagues from State and local agencies, both of whom provide subject matter experts for program development and instructional services.

The National Center has been so successful that requests for training often exceed the space available at Glynco. Thus, in addition to providing an opportunity to attend training at Glynco, some of these programs are conducted on a export basis at sites across the country. The funds included in our budget request will enable us to continue to support program administration, course development, Advisory Committee and other overhead expenses. Consistent with the shared funding concept that always has been part of our National Center, State and local agencies continue to be responsible for all expenses related to salaries, travel and per diem associated with this training.

Marana Operations

In 1984, the Department of the Interior's Bureau of Indian Affairs (BIA) requested that the Center manage the Indian Police Academy. We are now conducting that training at a satellite location, the Pinal Air Park, near Marana, Arizona, approximately 25 miles north of Tucson. Because Marana is a contractor operated facility already being utilized for fire suppression training by other Federal agencies, the Center was able to negotiate an expansion of its capability to provide cost-effective law enforcement training for the BIA.

In January 1985, the Center conducted its first 10-week Basic Indian Training Program at Marana; and since that time, we have conducted several additional programs, including Advanced BIA

training as well as some short-term Center and Agency Advanced training. During FY 1985, a total of 420 students graduated from the Marana facility, including 240 students from the Indian Police Academy programs and 180 students from Center and Agency Advanced programs.

Marana in no way duplicates the special training features available at Glynco, but it does serve as an adequate satellite facility to meet the training requirements of the participating organizations who have personnel posted in the Western United States.

Anti-Terrorism and Foreign Training

With the approval of Congress, the Administration initiated an Anti-terrorism Assistance Program in late 1983. This program is designed to improve the capabilities of the civil authorities in friendly foreign countries so that they may better deal with the expansion of international terrorism. Responsibility for administering the program rests with the State Department's Office for Counter- Terrorism and Emergency Planning. In February, 1984, at the State Department's request, the Center agreeed to participate in this program predicated upon the availability of staff and facility resources.

The Assistance Program consists of three phases: consultation and visit to key United States facilities by senior officials from a participating country; selection or design of training programs relevant to a particular country's need; and implementation of the selected training.

During FY 1985, Glynco hosted ten foreign delegations of senior government representatives from a number of countries including Italy, Camroon, Colombia, Greece, Israel, Portqual, Tunisia, Brunei, Honduras, and Denmark. These delegations participated in two-day visits and briefings on potential areas of assistance and interagency cooperation. Center representatives also travelled to Portugal and Costa Rica to assess specific areas of needed training. Jointly with the Office of State Security, the Center also conducted two programs in explosives recognition for the East Caribbean States and a security program for senior Egyptian personnel. Additionally, the Bureau of Alcohol, Tobacco, and Firearms delivered explosives training to three groups from Egypt, Costa Rica and Columbia at Glynco.

Thus far in FY 1986, Portugal, Costa Rica, Honduras, Pakistan, Persian Gulf States and the Netherlands have received assistance from the Federal Law Enforcement Training Center, and we anticipate requests from several other countries for training during this fiscal year.

As a result of language in the FY 1986 appropriation, the Center and Treasury officials have been working on a study and plan for anti-terrorism training for all Federal law enforcement personnel who have a need for it. It is important to note that, Glynco presently offers anti-terrorism training in a number of basic programs. However, with the increased threat that we face, we believe it necessary to reevaluate that training. Primarily, this will involve recognition and familiarization training for some agencies, and first responder training for others. Our initial plans, being developed in cooperation with the Department of Justice and the FBI, will contain milestones for the identification of needs and provision of increased anti-terrorist training for those of our participating organizations for whom it would be appropriate. A series of conferences with affected agencies will be held beginning in the next few weeks to develop these plans further.

In anticipation of the Center's increased involvement in Anti-Terrorism training, I have also established a faculty committee to coordinate these conferences and assume responsibility for the identification, development, and implementation of courses and programs which will be incorporated into our on-going curricula.

Mr. Chairman, as you know from earlier correspondence with Assistant Secretary Keating, the Department and the Center believe that our existing training delivery system can be responsive in

implementing anti-terrorism training and we will keep you informed of our progress.

ADP Modernization

The Center has made great strides in its ADP modernization efforts during this past year. We have appointed a full time Information Systems Officer and begun the design of a completely automated and integrated scheduling and training administration system. With the assistance of an interagency advisory committee, software is being designed and hardware specifications are being developed so that all the resources that are needed to support resident students are efficiently used. We also have made significant progress toward our objective of an automated testing and evaluation system that will eventually permit the on-line testing, scoring, and tracking of each student's academic performance. In this fiscal year, we will spend $625,000 on our ADP modernization project; equally distributed among the three categories of Equipment, Systems Analysis and Programming, and Systems Design and Engineering.

Closing

Mr. Chairman, in closing, I want you to know that I strongly support the efforts of the Administration and this Committee to control Government expenditures. At the same time, I am committed to work toward the accomplishment of the Center's mission to

provide the best possible training to the men and women who enforce our Nation's laws. Substantial savings are already being realized through the operation of the Center as a consolidated training facility, and we are confident that our programs are meeting the needs of the participating organization. Our budget request reflects a concern for fiscal restraint, as well as a commitment to quality training. I appreciate the continued support and guidance of this Committee and the excellent cooperation of the many law enforcement organizations we serve.

My colleagues and I now are available to answer any questions you may have concerning this request.

TRAINING PROGRAMS

Mr. ROYBAL. Thank you, Mr. Rinkevich.

You told the committee that during FY 1985, you trained 16,000 students?

Mr. RINKEVICH. Yes, sir.

Mr. ROYBAL. You went on to say this total included almost 15,000 students trained in Glynco's basic, advanced, and State and local programs. Can you explain for the Committee the differences between these courses? What is it that you teach in basic and advanced programs, and who do you teach in the State and local programs?

Mr. RINKEVICH. Let me take the first.

Mr. ROYBAL. I am under the impression that there are three separate and distinct functions, is that correct?

Mr. RINKEVICH. Yes, sir.

In regard to basic training, and advanced training, and State and local training, that is quite correct.

BASIC TRAINING PROGRAMS

Mr. ROYBAL. Is basic training usually given to those individuals who are new to the Services?

Mr. RINKEVICH. Basic training is typically the entry level training that a new officer or agent will receive before he assumes the responsibility of a Federal police officer.

ADVANCED TRAINING PROGRAM

Mr. ROYBAL. Can an individual take the advanced training later during his or her employment?

Mr. RINKEVICH. That is correct.

STATE AND LOCAL PROGRAMS

Mr. ROYBAL. What about the State and local programs, what do they include?

Mr. RINKEVICH. State and local programs are a form of advanced training as well, and they are programs that because of the peculiar expertise that the Federal Government has assembled at Glynco, or because those programs are not otherwise available to State and local officers, we offer to State and local police an opportunity to participate in a specified advanced training program.

Mr. ROYBAL. Are those State and local programs reimbursable?

Mr. RINKEVICH. Yes, sir. Well, let me be sure I answer you correctly, Mr. Chairman. The cost of developing a course and the cost of the facility, and the classrooms are a cost that is borne by the Federal Government. The cost of the student while he is at the Center for lodging and food and his transportation to and from the Center to attend that training, and, of course, his salary while he is there, is borne by the agency that sends him.

Mr. ROYBAL. The course is not paid for by the participating State or local authority?

Mr. RINKEVICH. That is correct.

Mr. ROYBAL. Your budget then includes the training process?

Mr. RINKEVICH. That is correct.

MARANA, ARIZONA FACILITY

Mr. ROYBAL. What about the 400 students who are at your satellite facility at Marana? Why are they different from the nearly 800 students in your export program?

Mr. RINKEVICH. Because we do not consider the satellite facility at Marana to be an export program. It is a facility that is run by a contractor just for the Federal Law Enforcement Training Center. The bulk of those students trained there last year were Indian students in either a basic Indian program or an advanced Indian program; with some of the other students being participating agency students that came in for advanced training; and, I think in one or two cases, State and local students.

Mr. ROYBAL. Why was it necessary to establish a satellite?

Mr. RINKEVICH. The reason for that came from the request that the Bureau of Indian Affairs gave to us. Originally, when they came to us in 1984 they asked us to assume the responsibility for managing their Indian Police Training program. They are, of course, part of the Department of the Interior and the Department of the Interior is one of the charter members of the Center, so we strove very hard to respond to that request.

They added one additional constraint and that is that they wanted the training program to be conducted in Indian country. At the time they came to us, the Center was facing a full workload of students at Glynco. In fact, we had no extra room at all. So, their requiring that or asking us to provide the training in Indian country—that is West of the Mississippi—plus the fact we had no room at the Center, made it the ideal solution to locate this training in a contractor operated facility in Marana in order to create an environment for basic Indian training.

ADDITIONAL TRAINING SITE

Mr. ROYBAL. Is it anticipated that you might have a third satellite because of future demands?

Mr. RINKEVICH. We don't anticipate that, no, sir. I should point out that that facility at Marana is not owned by the government. We are there on a year to year lease from which we can extract ourselves, should the need arise.

Mr. ROYBAL. It is still run under government auspices and still financed by the government?

Mr. RINKEVICH. The cost of operating the programs there is part of our budget, yes, sir.

BORDER PATROL TRAINING

Mr. ROYBAL. Another thing you told the Committee was that you were proud of the accommodations that you made to the entire 1,000 new Border Patrol trainees at Glynco. Why were they trained at Glynco and not at your satellite? It seems to me that the southern border would be closer to Arizona.

Mr. RINKEVICH. One of the early determinations that we made, Mr. Chairman, about our Marana facility was that we would not try to duplicate the superb training facilities that we have had at Glynco and the contractor put in place a very rustic, very rudimen-

tary training facility. This facility is so rustic and rudimentary for a 17 week program, which is what the Border Patrol basic training is, that 17 weeks could not be accommodated at Marana.

DIFFERENCE BETWEEN GLYNCO AND MARANA

Mr. ROYBAL. Is it correct to assume then that the services provided at the satellite are entirely different from those provided at your general headquarters at Glynco?

Mr. RINKEVICH. Yes, it is. It is different in that the training facilities that are available at Marana against the training facilities that are available at Glynco. We have no driving range, for example, for any defensive or pursuit driving at Marana.

Mr. ROYBAL. What do you mean driving range?

Mr. RINKEVICH. The driving range I am referring to is vehicle driving.

BORDER PATROL TRAINING

Mr. ROYBAL. What kind of training does the Border Patrol get? Are they given instruction in Spanish, if they are going to serve in the border to the South?

Mr. RINKEVICH. Yes, sir, they are. Their training is 17 weeks long, and it includes 240 hours of Spanish language training, which is mandatory training. As part of their training the students must complete the language training successfully before they are graduated, and a variety of other training activities that are similar to the basic program that we provide any police officer.

Mr. ROYBAL. Are these individuals newly employed as Border Patrolmen?

Mr. RINKEVICH. Yes, sir. We also conduct, of course, their advanced training at Glynco. We do conduct some advanced training for the Border Patrol at Marana, particular for those that are posted in the West, which is where most of the Border Patrol officers are located.

Mr. ROYBAL. Border Patrol is a separate entity, is it not, from the Immigration Service?

Mr. RINKEVICH. No, sir, it is a part of the Immigration Service.

Mr. ROYBAL. Don't Border Patrol personnel get training regarding the language, philosophy, and psychology of the people of the area before they receive training by you?

Mr. RINKEVICH. Not to my knowledge, sir. All of the Immigration Service training is conducted at the training Center either at Glynco or, now in the case of some advanced training, at Marana. So all basic training for entry level personnel in the Immigration Service, Border Patrol, inspectors, or whomever it might be, is provided at the Center by a combination of Immigration Service and Border Patrol faculty as well as the Center's faculty.

Mr. ROYBAL. Does everyone that serves in the Border Patrol have to go through this training, including so many hours in the learning of Spanish?

Mr. RINKEVICH. All of the Border Patrol officers receive the required 240 hours of Spanish language. I cannot tell you whether all Immigration inspectors receive that training.

Mr. ROYBAL. My answer to that would be no, which is unfortunate.

Mr. Skeen.

Mr. SKEEN. Thank you, Mr. Chairman.

Border Patrol trainees are recruited from other law enforcement agencies if I am not mistaken?

Mr. RINKEVICH. I am sure they are.

Mr. SKEEN. There is a historic connection between law enforcement groups throughout the area. I know in our part of the country that you put them through an intense course no matter where they come from.

Mr. RINKEVICH. Yes, sir.

DEFERRED AGENCY TRAINING

Mr. SKEEN. You mentioned in your testimony here that you have two Federal agencies on a deferred request for training. Which agencies are those?

Mr. RINKEVICH. One of those is the Inspector General's Office of the Administrative Office of the US Courts, which is a newly created and fairly small body; the other is an enforcement arm of the Defense Logistics Agency.

Mr. SKEEN. Everybody wants a secure agency?

Mr. RINKEVICH. I think those already exist. They are looking for a place to be trained.

Mr. SKEEN. Where have they been training?

Mr. RINKEVICH. I can't answer. I think in the case of the Inspector General's Office, they are so new they haven't received any training. I don't know where the DLA does its training.

Mr. SKEEN. You are taking them on a space available basis?

Mr. RINKEVICH. That is correct. It doesn't involve, from what I gather, a large number of people.

DORMITORY FUNDING

Mr. SKEEN. You cited the dormitory construction project. Under Gramm-Rudman, is this considered a project or program or activity?

Mr. RINKEVICH. The dormitory construction—I don't know what the terminology would be under Gramm-Rudman-Hollings?

Mr. SKEEN. I was curious.

Mr. RINKEVICH. But it is a project that has——

Mr. SKEEN. Is it a project?

Ms. KENT. A project.

Mr. SKEEN. It was a project that got a 4.3 cut. It should only be a 4.3 cut then?

Ms. KENT. I think Mr. Rinkevich can explain that.

Mr. SKEEN. At that time did it take more of a hit?

Mr. RINKEVICH. The dormitory project is in the Congress in the form of a rescission request. The total dormitory appropriation was $6.0 million. Combined, Gramm-Rudman-Hollings and the rescission request, in effect, zeroes out regardless of whether it is a project or a program account.

Mr. SKEEN. That is why I am curious about this. Instead of taking 4.3 across the board, you took it all out of the one project, is that correct?

Ms. KENT. May I? In addition to the Gramm-Rudman-Hollings reduction, the Administration is also proposing a program rescission of $5 million, the total of which will completely eliminate funding for the dormitory.

Mr. SKEEN. So it involved two things.

Ms. KENT. Exactly.

Mr. SKEEN. $2.4 million represents a cumulative total?

Ms. KENT. No, the $1 million is just Gramm-Rudman.

Mr. SKEEN. I see.

Ms. KENT. Then the additional $5 million program rescission is taken—they are taken in combination for a total reduction. Am I making myself clear?

Mr. SKEEN. Obviously then it wasn't a straight 4.3. You still have the rescission in the project?

Ms. KENT. Yes.

Mr. SKEEN. Somebody is juggling the figures here. I want to know where we are and how.

Ms. KENT. I think, excuse me if this has been confusing but——

Mr. SKEEN. It is.

Ms. KENT. Let me attempt to clarify it.

Ms. KENT. The Training Center would have been subject to a $5 million rescission.

Mr. SKEEN. That would be the 4.3?

Ms. KENT. No sir.

Ms. KENT. One million Twenty-four thousand dollars. That is the Gramm-Rudman-Holling reduction.

Mr. SKEEN. You had a rescission.

Ms. KENT. Right. That would be it. The Administration made a decision that the dormitory was not a high priority. So that the Gramm-Rudman-Hollings reduction was directed toward the dormitory and then an additional program rescission, separate from Gramm-Rudman but to be included in the package of rescissions transmitted by the President, for $5 million, was taken. Both the rescission and, the Gramm-Rudman-Hollings reduction of one million are directed toward the dormitory.

Mr. SKEEN. It also satisfied the requirements that you had.

Ms. KENT. Correct.

Mr. SKEEN. That is the concern I had, was the next question would be how seriously do you need it? Obviously it didn't fall high in the priority list as far as the dormitory construction?

Mr. RINKEVICH. That is correct.

Ms. KENT. I want the committee to understand that this reflects the belief that it is not a high priority given fiscal constraints and the lack of clarity about what Gramm-Rudman and continued fiscal constraints is going to do to other agency's law enforcement training budgets.

I would also say we are not sure at all, and capacity is a problem. This doesn't reflect our belief that capacity is not a problem, it just reflects the belief that given fiscal restraint at this time, we believe that a rescission can be transmitted.

Mr. SKEEN. I know Gramm-Rudman is confusing to the agencies. That is one of our problems. We are looking for into how various agencies are treating Gramm-Rudman. If you had a very handy throwaway, such as the program of this kind that doesn't come up high on the priority list, it could satisfy several requirements that you are meeting under the budget restraints. I just want to get it clear how we are doing, meeting the Gramm-Rudman mandates.

Ms. KENT. Do you want me to give you any more information?

DORMITORY NEEDS

Mr. SKEEN. I think you have pretty well told us how you are handling this because it was a convenient project to delete and it satisfied the requirements. I was very curious too, whether the dormitory needs aren't necessarily one of your top priorities.

Mr. RINKEVICH. Not as reflected by this.

Ms. KENT. That doesn't mean that we don't regard it as an important issue, but it is not a high priority.

Mr. SKEEN. Surely. We understand the nuances, we are doing the same thing around here.

Do you house any of these trainees off campus? Do you find that more cost effective?

Mr. RINKEVICH. Well, our philosophy has to be and to the extent that we can, we think it is good for the training environment, we think it is good for the officers that are being trained to be housed on the facility. Beyond that, there is a real cost savings. We house and feed a trainee at our Center, Congressman, for about $14 a day and that with good food. So we think it is important both from a standpoint of cost savings as well as comingling of the students while they are going through training to be housed onsite.

Mr. SKEEN. Association?

Mr. RINKEVICH. Yes, that has a lot of payback. In the past couple of years, we have housed more students off the Center than we have had to do in the past.

Mr. SKEEN. It has been a growing trend?

Mr. RINKEVICH. Yes. Of course, as we have indicated, we are not sure what Gramm-Rudman-Hollings is going to do to that trend, and so when Ms. Kent talks about the dormitory as not being a throwaway project, she is quite correct.

Mr. SKEEN. I didn't mean to term it that way, there is probably a better term for this. If you could submerge that need to the benefit of something else.

Ms. KENT. Until the situation is clarified——

Mr. SKEEN. When Gramm-Rudman—not to get into another philosophical discussion—when this was proposed in the Congress, they were supposed to have that latitude and flexibility within programs to make those decisions. So you didn't have to do away with a whole group of projects by cutting them all the same or could eliminate a program for the benefit of the others. There was supposed to have been this kind of flexibility. You folks obviously did exercise some flexibility and so I recognize that. I didn't mean to use the term throwaway.

Ms. KENT. We didn't misunderstand it.

OFF FACILITY HOUSING COSTS

Mr. SKEEN. What are your cost comparisons off campus?

Mr. RINKEVICH. Fourteen dollars a day for food and lodging. I can give you the exact figures. In 1983 we spent $147,000 in off Center housing to accommodate 560 students. In 1984, we spent three quarters of a million dollars, $787,000 to house 3,127 students. And in 1985, we spent almost $800,000. So to house 3,108 students——

Mr. SKEEN. Give me a cost per student.

Mr. RINKEVICH. Well, a room down in a commercial facility cost $28 a night, give or take a couple of bucks, as opposed to housing the student for $7 a night at our facility.

Mr. SKEEN. Three times, four times as much?

Mr. RINKEVICH. Yes sir.

DORMITORY PLANS

Mr. SKEEN. Do you have plans for a dormitory expansion program after depending on what the budget picture looks like, sometime in the future? You haven't done away with it?

Mr. RINKEVICH. No, we haven't. As a matter of fact, Congress, two years ago I think it was, authorized us to go ahead with the preliminary architectural design. We have that on the shelf.

Mr. SKEEN. You have done that?

Mr. RINKEVICH. Yes sir.

Mr. SKEEN. Thank you.

Mr. ROYBAL. Mr. Akaka.

TRAINING PROGRAM QUALITY

Mr. AKAKA. Thank you very much, Mr. Chairman.

In the past few years, I have asked the question about the rating that agencies have given your training and I have been interested in that. I notice that you have confidence that your programs are meeting the needs, and so in that light, have you received many commendations from participating organization for your training program?

Mr. RINKEVICH. I think it would be fair to say, I would try to be appropriately modest, Mr. Akaka, by saying that the Center does enjoy very good relations with its participating organizations and on a regular basis we are complimented by them in regard to the quality of training.

I should quickly add that it is not just a Center phenomena, it is not just because of the Center's staff that training is such a high quality. It also is because the agencies that we train, participate in that training through the assignment of faculty to work with us, and to provide the actual classroom instruction as well as to work in course development.

So there is a vested interest on the part of the agencies in what goes on at the Center. There is a real synergism that occurs to assure the quality of our training. Day-to-day contact and dialogue with the agencies, 17 of whom have representatives at the Center, tends to keep the program honest, if you will.

TRAINING REDUCTIONS

Mr. AKAKA. You have given here early indication of cutbacks in some training by your client agencies and that has been made necessary by their budgets. Do you expect a great decline of requests from services that you are training?

Mr. RINKEVICH. I can tell you what we have received already and that as of February 25th we were informed by the 50 some odd agencies that we train, that they would send to us some 382 fewer students in basic training than what we had predicted a year or so ago, and some 783 fewer in advanced training for a total withdrawal, if you will, of something slightly in excess of a thousand students. The reason given by the agencies has been the Gramm-Rudman-Hollings budget reductions.

TRAINING OPERATIONS

Mr. AKAKA. Is the training all year around, or is there a period where there is no training that occurs there?

Mr. RINKEVICH. No, the training is year round and it is done in a way that we can control beginning and end dates of some classes. Obviously if a class ends on Thursday, rather than have another class begin on a Friday, we might delay it until a Monday to make a cost savings to the government. But there is training on a year round basis and, in fact, when I first came to the Center some three years ago, the holiday period around Christmas time was often seen as a light period. That is no longer the case. Because of the pressure of training on the Center, we have increased our training even during the traditionally light periods.

ANTITERRORIST TRAINING

Mr. SKEEN. Of the programs that you offer, what percentage would be training in antiterrorist activities?

Mr. RINKEVICH. I can't give you an exact percentage, Congressman. I can tell you that in all of our basic programs, we address the question of terrorism in one form or another. We have a variety of advanced programs that are specifically designed for dealing with terrorism. Courses like evasive driving for agency personnel who are driving either American or foreign dignitaries, who would want to use the techniques of driving an automobile, to avoid a terrorist attack.

One of the things that we are in the process of doing is taking a look at each course offering and where it is appropriate, increasing it, or refocusing its attention to make sure it is current, with the latest information that we have from our agencies on terrorist tactics and the terrorist problem generally.

Mr. AKAKA. Has there been the addition of training for terrorism?

Mr. RINKEVICH. At the Center?

Mr. AKAKA. Yes. Have you stepped it up?

Mr. RINKEVICH. Yes sir, we have. We have just, as I indicated earlier, reviewed the curriculum of three of our basic training programs. As part of that process, we have examined the question and where necessary, strengthened the way in which we teach antiter-

rorist subjects, such as familiarization or profiling, or whatever. Of course, our participation with the State Department in their anti-terrorist program has been a brand new effort on the part of the Center in the last year and a half. So we are investigating resources we had never investigated before and assisting the State Department in fulfilling its responsibility for the training of friendly foreign governments.

GRAMM-RUDMAN AFFECTS

Mr. AKAKA. From what I have read, and what you have said, I take it that the Gramm-Rudman would not really affect your training program?

Mr. RINKEVICH. Well, it has affected it at least to the extent that we have a thousand fewer students predicted for this fiscal year than we did several months ago. I should say that the projections we are talking about with a thousand reductions, does not include any of our foreign training, for example. We have no way of predicting the number of students that the State Department is going to send to us and of course, it obviously accounts for the kind of extraordinary training that we are asked to do on occasions. The FAA Air Marshal program is an example. That program wasn't conceived of, literally, until a few weeks before it actually began, and those additional people that we trained, I guess 100 or so Air Marshals, were not in anyone's books or projections.

There is clearly a pullback on the part of the agencies because of Gramm-Rudman, but we are quite frankly not sure how much that is going to affect the training that we do. My guess would be that it would affect our advanced training more than our basic training. I think most agencies, to the extent that they are allowed to fill vacancies under their budget, are going to have to have those individuals trained before they can fulfill the duties of law enforcement officials.

So my guess is that the agencies will cut back first on advanced training and continue, as best they can, the basic training.

Mr. AKAKA. Thank you very much.

APPLICATION OF GRAMM-RUDMAN CUT

Mr. ROYBAL. Mr. Rinkevich, in answer to the questions that were asked by the gentleman from New Mexico, Mr. Skeen, you left, at least in my mind, something that seemed a little ambiguous, that is, with regard to the reduction of 4.3 percent to one particular project. It is my understanding that Gramm-Rudman does not permit the Executive Branch to pick and choose what projects they think are low priority, then apply the whole 4.3 reduction to that project.

Am I correct in what I understand to be the fact, that most of the 4.3 percent reduction was actually applied to the one project?

Mr. RINKEVICH. All of the 4.3 reduction for Gramm-Rudman was applied to the dormitory project, that is correct, sir.

Mr. ROYBAL. It seems to me that is illegal.

Mr. RINKEVICH. Well, I would ask Ms. Kent to comment on it. I should say before that, to underscore what was said a few minutes ago, that the dormitory project is a critical project for the Center.

The application of the Gramm-Rudman reduction to it has not been something that has been painless. We have fought for a couple of years to get that project on the books, and so it was important to the Center and the Department supported us. So the decision to apply the reduction to it was not taken lightly, it was taken against a project that we all believed to be a critically important project.

As to the legality of how that was done, I would defer to Ms. Kent.

Ms. KENT. I think that in the GAO report there is a reflection that this is coming out of S&E, is that correct? And I think that both of you are raising a good point, but I don't believe there is a judgment made at the Department in conjunction with OMB. There is a line item restriction for this particular project that was binding. I think that was——

Mr. ROYBAL. It is my understanding that under Gramm-Rudman, it is not possible to take all of the 4.3 percent reduction from one item, or one project. In this instance, it would be your whole department that would suffer a reduction of 4.3. percent.

But what you have told the committee is that all of it came out of the one project. If agencies merely pick those projects they don't want funded and take the whole 4.3 percent reduction out of those projects, the intent to be fair with regard to these reductions will be completely evaporated. Now, again my understanding is that this action is illegal, that it should not be done, and that the language of Gramm-Rudman itself, if it does not specifically prohibit it, it definitely implies that it is prohibited.

How did you get into the situation where, because you didn't like this particular project, you decided to take a full reduction on it, when we know that it is against the law. Do you happen to know?

Mr. RINKEVICH. Once again, I didn't understand that it was against the law or I wouldn't have done it, but I go back to the criticality of this project from the Center, and the Department's perspective. As you know from prior testimony before you, it has been an activity that we have been very interested in and so it wasn't that we had a project of low interest or low priority. When we applied the Gramm-Rudman reduction, we applied it to a very important project, at least in the minds of the Center's officials, and I think also in the minds of the Departmental's officials. It was not a painless application, it, indeed, was a painful application.

We have gone to a great deal of effort and through a number of steps to begin to build that dormitory since we received the appropriations last year. We thought we were successful in that and ready to go forward, so we have taken a big step in cutting it.

Ms. KENT. Out of respect for the Committee's concern it was not our interpretation that what we did in conjunction with the Office of OMB was violating the law. We would like the opportunity to go back and look at the budget to see what the Gramm-Rudman message has set up with this reduction reflected in this manner, and we can't change that but we would certainly like a chance to satisfy the Committee's concern about what our legal judgment was.

Mr. ROYBAL. I wish you would look at this again, because it is my understanding at least, that when something is specified under

Gramm-Rudman, a reduction must be made to that particular specified item. This dormitory was specified in the House report.

Mr. SKEEN. It is in the language.

Mr. ROYBAL. The reduction must be applied evenly, the dormitory project is in the language of the House report and I think it is quite clear in what manner the reduction must be done. In this instance, doing it as you have seems to me to be in violation of Gramm-Rudman.

The committee then would appreciate clarification of that.

Ms. KENT. All right.

Mr. ROYBAL. If there is some illegality, I am sure it is not intended, but nevertheless, it must be corrected.

Ms. KENT. Certainly.

[The information follows:]

DEPARTMENT OF THE TREASURY
WASHINGTON

March 25, 1986

Dear Mr. Chairman:

At the March 5, 1986, Federal Law Enforcement Training Center hearing, you requested an explanation of how the Gramm-Rudman-Hollings (G-R-H) reductions were applied to the Center's budget for FY 1986. You were concerned that the Center had taken the total 4.3 percent G-R-H reduction from one "program, project and activity," instead of applying those reductions across-the-board, as specified in law.

The total G-R-H reduction for the Federal Law Enforcement Training Center in FY 1986 amounts to $1 million (4.3 percent of the Continuing Resolution amount of $23.8 million). The "program, project and activities" as identified from the legislative history for P.L. 99-190 (Continuing Resolution) for the Federal Law Enforcement Training Center were:

- Salaries and Expenses; and
- Dormitory Construction

The funding levels based on the Continuing Resolution were $17.8 and $6 million, respectively. From these levels, G-R-H reductions were applied, resulting in a reduction to "Salaries and Expenses" of $766 thousand and "Dormitory Construction" of $258 thousand. These amounts were sequestered.

The Center's Congressional budget justification reflects a revised proposed level of $17.8 million. This is a net figure consisting of the Continuing Resolution, G-R-H reductions, a proposed rescission, and a proposed reprogramming action of $766 thousand from the "Dormitory Construction" activity into the "Salaries and Expenses" activity. The table below reflects this change:

Federal Law Enforcement Training Center
FY 1986 Proposed Level
(dollars in thousands)

Program/Project	CR (PL 99-190)	G-R-H	Reprog.	Resciss.	FY 1986 Proposed Level
Salaries & Expenses	$ 17,803	-766	+766	---	$ 17,803
Dormitory Construction	6,000	-258	-766	-4,976	---
TOTAL	$ 23,803	-1,024	---	-4,976	$ 17,803

The above table shows a sequestration of funds as required by law and a planned reprogramming of funds to meet operational requirements.

According to the procedures for notification on reprogramming actions, the appropriations committees will be notified "whenever there is an individual or aggregate increase in the amount of obligations from the amount included in the approved financial plan in excess of $200,000 or 5 percent, whichever is greater, for each object class, budget digest program line item, or activity."

Although the reprogramming action for the Center does not fall within the established criteria, we are more than willing to submit a letter requesting our proposed changes.

I hope that this explanation has been helpful. If you have any further questions, please do not hesitate to call.

Sincerely,

Jill E. Kent
Deputy Assistant Secretary
For Departmental Finance
and Planning

Honorable Edward R. Roybal, Chairman
Subcommittee on Treasury, Postal
Service and General Government
House of Representatives
Washington, D.C. 20515

ANTITERRORISM TRAINING

Mr. ROYBAL. Now, there is another item I wanted to talk to you about. That is antiterrorism. Do you train the Secret Service?

Mr. RINKEVICH. Yes sir, we give the Secret Service the basic training that they receive through our Criminal Investigative Programs.

Mr. ROYBAL. We were told this morning there is a tremendous decrease in funding for antiterrorism funding in the budget of the Secret Service.

Mr. RINKEVICH. I couldn't comment on that, Mr. Chairman.

Mr. ROYBAL. The truth of the matter is that it is there, although I don't expect you to know about it. It makes one wonder sometimes why we put money into a training program that, because of these budget cuts, will be almost nonexistent. Now, I don't think there should be any cut in antiterrorism, but the amount was $3.7 million, a tremendous reduction.

Do you train the Secret Service in antiterrorism? Is that part of the curriculum that you have?

Mr. RINKEVICH. Yes sir. The latter part of your statement is quite correct. I should point out that the Secret Service does do a fair amount of training that relates to the protection of their principals here in Washington and most of the antiterrorism training I think you are talking about would be that which would be included in training done at Beltsville. We provide the basic training for the Secret Service, then they do their own advanced training up there.

Mr. ROYBAL. You also do some training for State and local law enforcement agencies? Does that include training in antiterrorism?

Mr. RINKEVICH. We are not doing, at this point, Mr. Chairman, any training in antiterrorism for State and local employees.

Mr. ROYBAL. What kind of training do you give them?

Mr. RINKEVICH. We give them training in, well, let me correct that, we give them training in subject areas that could be applied to the antiterrorism tactics. For example, we support training provided by the Bureau of Alcohol, Tobacco and Firearms, such as post bomb investigations, which obviously is a subject that would be applied to antiterrorism training. But we don't have any menu of courses that are labeled antiterrorism training that we invite State and local police to come to.

Mr. ROYBAL. This training is given primarily at their request?

Mr. RINKEVICH. Yes sir.

STATE AND LOCAL TRAINING REIMBURSEMENTS

Mr. ROYBAL. Is there any reimbursement for training?

Mr. RINKEVICH. It is reimbursement for their travel and food and lodging while at the Center.

Mr. ROYBAL. In other words, do you advance them money for travel, which then they reimburse?

Mr. RINKEVICH. No, they pay their own travel with their own sources of revenue and pay for their food and lodging while at the Center.

Mr. ROYBAL. Then the only reimbursement is for the food and lodging that you provide?

Mr. RINKEVICH. Yes sir. We absorb the cost of our instructional staff and facility use for their training.

Mr. ROYBAL. They only pay for the room and board?

Mr. RINKEVICH. And their travel to and from the Center, that is correct, and their salaries while they are in training.

Mr. ROYBAL. Are there any other questions?

ANTITERRORISM TRAINING BUDGET CUTS

Mr. SKEEN. Yes. In the discussion on your budget considerations and discussions with OMB, was there anything OMB said about reducing the amounts requested for antiterrorism training as far as your agency was concerned?

Mr. RINKEVICH. No.

Mr. SKEEN. Then I am a little puzzled why the Secret Service takes a hit. Maybe when we talk to OMB it would be nice to know what their rationale was in one case reducing the budget request for terrorist training and in another case not.

Just as a matter of curiosity, they had no discussion with your agency?

Mr. RINKEVICH. That is correct. I should point out in all fairness, that in our budget presentation we didn't ask for a line item for antiterrorist training.

Mr. SKEEN. So you had no targets?

Mr. KEATING. If I could postscript what the Director has said, we were told early on there was hesitancy on the part of the FBI, or perceived hesitancy on the part of the FBI, to share the antiterrorist training functions. As you know, the Federal Bureau of Investigation is the front line troop in the antiterrorism effort. Director Rinkevich and I met with the Deputy Attorney General and requested his participation and that of the FBI in updating all of the antiterrorism training at the Federal Law Enforcement Training Center so that all the training programs provided the Center's 59 participating agencies would contain the most updated, the most necessary antiterrorism training we could give them. A study is in the process of being prepared at this time and we anticipate, according to my letter to you of February 4th, we will have it completed this month.

We certainly agree with the chairman that this is an area of tremendous concern and we intend to have the training programs at the Center to be up-to-date and to meet those needs.

Mr. ROYBAL. The concern is that even if the appropriation is being made as you have described, if there are cuts for the application of the things that you people teach—in the case of the Secret Service, counter terrorism activities are being cut back by $3.7 million—the question as a layman I would ask is why go through all the exercise if they are not going to be doing anything anyway?

Mr. KEATING. I don't think that there is any impact on the Secret Service as to their training at the Federal Law Enforcement Training Center at Glynco. The impact would be at Beltsville.

Mr. ROYBAL. I understand that. The truth nonetheless is that there will be a tremendous impact on antiterrorism efforts in this country.

Mr. SKEEN. We are trying to get some basis of rationale.

Mr. ROYBAL. There is no rationale.

Mr. SKEEN. We are not picking on OMB exactly, but they are a handy target, too.

Mr. ROYBAL. It is hard to understand OMB's rationale on this matter of antiterrorism. To cut back on that to me is a cardinal sin.

Mr. KEATING. Let me make this commitment. I will get Director Simpson to see if he can educate us all a little more graphically than we were able to get from the information he provided this morning. I really don't know why that was done.

Mr. ROYBAL. It is important we address ourselves to that particular problem.

Mr. KEATING. Yes sir.

CENTER BUDGET DATA

Mr. ROYBAL. One last thing. I don't understand your chart on page 5. Will you explain it to me?

Mr. RINKEVICH. The first part of the chart reading across '85, '86, '87 is reflective of our budget. The top column for example, for 1987, $20,899,000 is what we requested Congress to appropriate.

The next figure of 10.3 million is that money which we will realize when agencies pay us for the lodging and the food for students to come to the Center.

Then the various categories of training that we conduct are shown on the left hand column under workload. The criminal investigation training, police basic training, and the numbers of students for each of those programs that we either have trained in '85, '86 or '87.

Then we convert that into student weeks so you can see, for example, in the Criminal Investigator Training Program in 1985, we trained 1,146 students in our eight-week Criminal Investigator Program. That converted into 8,058 student weeks.

Mr. ROYBAL. I understand that now. What I need more enlightening on is the appropriated level in 1985, 1986 and 1987. In this instance, let's take 1987, and deal with that for just a moment. That appropriated level is $20,899,000.

Mr. RINKEVICH. Yes sir.

Mr. ROYBAL. The reimbursable amount is $10,388,000. Does that mean that 50 percent of that total cost was reimbursed?

Mr. RINKEVICH. That is correct.

REIMBURSEMENT TRAINING LEVEL

Mr. ROYBAL. If you take then the same thing in 1986, you find that more than half was reimbursed and that the same thing was true in 1985. Does that mean then that we can assume at least half of your entire budget will be reimbursed?

Mr. RINKEVICH. Well, the percentage is not fixed. It depends on the number of students that we train, because you will notice, Mr. Chairman, that in 1986 we anticipate that we will have trained

nearly 23,000 students, whereas in '87 we are predicting that we will train slightly less than 20,000 students, 19,563 students. So the reimbursable and the appropriated funds vary according to the number of students and the kind of students we are training.

Mr. ROYBAL. Looking at this again for 1987, does the $10,388,000 in reimbursables indicate that that is the amount of money that was used for food and lodging?

Mr. RINKEVICH. Not only food and lodging. There are other costs associated with training that are included in that $10.3 million. The way the policy is for 1987 is that the Center's budget will account for the direct costs of training for basic students. The agencies will be required to reimburse all costs to the Center for advanced students. So that for example, in FY 87 under this policy, if a student comes to us as a basic student, his agency will have to pay his lodging and his food at the Center. We will absorb all of the other costs associated with his training, such as the ammunition that he uses, and the uniforms that are laundered.

On the other hand, if an agency sends to us a student for an advanced training program, they are going to have to absorb all of that cost not only for his lodging and food, but also for the laundry of his uniform, the ammunition that he expends on the range, a share of gasoline for the cars that he drives in training and that sort of thing. That is an example of what makes up our reimbursable category.

Mr. ROYBAL. The reimbursable category, once reimbursed, goes back to the Federal Law Enforcement Training Center account?

Mr. RINKEVICH. That is correct.

Mr. ROYBAL. Not to the Treasury of the United States?

Mr. RINKEVICH. That is correct, because it represents payment for expenditures that we have already incurred, such as the cost of the students' food, lodging, laundary of his uniform and gas for his car.

Mr. ROYBAL. You are reimbursed for that?

Mr. RINKEVICH. That is correct.

Mr. ROYBAL. You are actually coming out even insofar as that service is concerned?

Mr. RINKEVICH. That is correct.

Mr. ROYBAL. So the actual training costs are about 50 percent of your total budget?

Mr. RINKEVICH. The actual cost of the students being trained would be the total amount of the appropriated and reimbursable funds, Mr. Chairman.

Mr. ROYBAL. I understand that. I am trying to get a difference between the amount that is not reimbursed and the reimbursable amount. If fifty percent is reimbursed, another 50 percent is not. That is absorbed through our budgetary process?

Mr. RINKEVICH. That is correct, It is actually a one third and two-thirds. One third of our total budget of $31 million is reimbursed, roughly $10 million, and two-thirds is appropriated by the Congress, about $20 million. In FY '87 the total expenditures at the Center should be roughly $30 million, but we will receive roughly $10 million from the agencies and $20 million from the Congress.

Mr. ROYBAL. You are including in that $30 million the $10 million reimbursed?

Mr. RINKEVICH. That is correct.

Mr. ROYBAL. The accountant would go wild with that.

Mr. RINKEVICH. I might take the accountant with us to help us stay on a straight and narrow.

Mr. ROYBAL. Is there a fixed rate for lodging?

Mr. KELSO. That is right, based on our contract experience in negotiating contracts, we vary a cost per bed depending on the volume of students that we expect to have in residence at any one time. So there is a sliding scale of charges that applies to keep the contract realistic.

Mr. ROYBAL. Is there also a sliding scale with regard to food?

Ms. KENT. Yes sir.

Mr. ROYBAL. That is why I said an accountant would have a wild time with a thing like that.

Well, I would like to thank you, Mr. Rinkevich and thank you and your colleagues for your testimony this afternoon.

Mr. RINKEVICH. Thank you, Mr. Chairman.

Mr. ROYBAL. The meeting is adjourned.

[Questions for the record, the answers thereto and the justifications follow:]

Change in Funding Policy

MR. ROYBAL. In your opening statement you state that there has been a change in the funding policy for the Center. Would you explain this change?

MR. RINKEVICH. Prior to FY 1987, the policy has been for the Center to pay for all basic training costs including the student travel, meals, lodging and course costs to the extent funds are available. Beginning in FY 1987, under the new policy, the Center will fund only the direct costs of training for basic trainees. The participating organizations will assume responsibility for their respective student costs of travel, meals and lodging. The Center will fund the course costs, or direct training costs, which include items such as instructor salaries and benefits, utilities, printing, ammunition, materials and supplies.

MR. ROYBAL. Will the pending FY 1987 appropriation cover all of the Center's costs under this new policy?

MR. RINKEVICH. Based on the projections for basic training that we received from the participating organizations, the Center can fund approximately 70% of the direct training costs. These projections were received prior to the enactment of the Gramm-Rudman-Hollings Act. Since its enactment, we have experienced some cancellations of training. Therefore, with the total impact of both the new policy and the Gramm-Rudman-Hollings Act unknown at this time, we are unsure whether the funding will be adequate for FY 1987. As the Center gains experience with the new funding policy, adjustments may have to be made.

Minor Construction and Maintenance

MR. ROYBAL. You are again requesting funding for minor repairs. What is the current physical condition of the Center and do you expect to have a continuing request for funds for minor construction and maintenance in future years?

MR. RINKEVICH. The present physical condition of the Center is excellent. As you know, the Center is located on 1,500 acres, has over 150 buildings containing approximately 1.5 million square feet. Many of the buildings are unique training facilities. The General Services Administration is not responsible for the maintenance of the Center facilities. We do expect to have a continuing need for minor construction and maintenance funds.

These funds are used to protect the Government's investment of over $100 million in Glynco, to maintain safe conditions and to be able to meet our changing training requirements.

Construction Account

MR. ROYBAL. Are there any funds remaining in the construction account?

MR. RINKEVICH. Yes. There is approximately $700 thousand remaining in the construction account. These funds have been set aside to cover an outstanding construction claim, which, without interest, totals $424 thousand. We have been in contact with GSA and there is no known settlement date at this time.

Instructors

MR. ROYBAL. What are the qualifications of your instructors and where did you get them?

MR. RINKEVICH. Instructors at the Center generally come from a law enforcement background. Sources include Federal organizations, State or local governments, and the military. The great majority have previous Federal experience. The Center normally requires a minimum of five years experience in law enforcement with some training experience and/or special expertise.

MR. ROYBAL. Do they rotate back to their agencies?

MR. RINKEVICH. Approximately 50% of the instructional staff are permanent Center employees. The remaining 50% are detailed to the Center for a period of two to three years, and they do rotate back to their parent organizations.

State and Local Training

MR. ROYBAL. What training have you done for state and local law enforcement agencies?

MR. RINKEVICH. The National Center for State and Local Law Enforcement Training Programs conducts advanced and specialized training for state, county and local law enforcement officers. Presently, over 20 programs are offered and several others in the development stage.

MR. ROYBAL. Is the training reimbursable?

MR. RINKEVICH. The training is reimbursable from the standpoint that the student's employer is responsible for the student's salary, travel, enroute per diem, and food and lodging while at Glynco. The National Center is funded for course development and delivery.

Dormitory Rescission

MR. ROYBAL. Explain the rescission proposal for FY 1986.

MR. RINKEVICH. The rescission proposal concerns the construction of a dormitory at the Center. The FY 1986 Continuing Resolution included $6 million for the construction of a dormitory. The Center has demonstrated that an additional dormitory is warranted from both a cost standpoint and workload standpoint. With the Administration's emphasis on reducing the Federal deficit, the decision was made to rescind the dormitory funding.

Foreign Training

Mr. Roybal. What is your program regarding the training of foreign nationals?

Mr. Rinkevich. The Center has participated in an Anti-Terrorism Assistance Program sponsored by the Department of State since February 1984, shortly after the program was approved by Congress. This Administration developed effort is designed to improve the capabilities of civil authorities in foreign countries to better address the growing threat of international terrorism. The Center's involvement in this program is based upon the availability of our staff and facility resources. Training is provided after the program needs of the Center's Federal participating agencies have been scheduled, so as to ensure that our primary training mission is being met.

The Anti-Terrorism Assistance Program consists of three phases: consultation and visits by Senior foreign officials charged with the responsibility of coordinating the anti-terrorism efforts in their country; selection or design and development of training relevant to a particular country's need; and the actual training itself.

During FY 1985, Glynco hosted ten foreign delegations of senior government representatives from a number of countries including Italy, Camroon, Colombia, Greece, Israel, Portugal, Tunisia, Brunei, Honduras, and Denmark. These delegations

participated in two-day visits and briefings on potential areas of assistance and interagency cooperation. Center representatives also travelled to Portugal and Costa Rica to assess specific areas of needed training. Jointly with the Office of State Security, the Center also conducted two programs in explosives recognition for the East Caribbean States and a security program for senior Egyptian personnel. Additionally, the Bureau of Alcohol, Tobacco, and Firearms delivered explosives training to three groups from Egypt, Costa Rica and Columbia at Glynco.

Thus far in FY 1986, Portugal, Costa Rica, Greece, Honduras, Pakistan, Persian Gulf States and the Netherlands have received assistance from the Federal Law Enforcement Training Center, and we anticipate requests from several other countries for training during this fiscal year. It should be noted that the training recently provided to Greek Government officials was the first Airport Security Program which was jointly conducted by the Center and the FAA's Transportation Safety Institute.

FEDERAL LAW ENFORCEMENT TRAINING CENTER

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1986
(Dollars in Thousands)

Salaries and Expenses, Federal Law Enforcement Training Center

	Permanent Positions	Average Positions	Amount
1986 Appropriation (Continuing Resolution) Enacted by Congress	250	256	23,803
Adjustments:			
(1) Proposed Recission for Dormitory Construction	---	---	4,976
(2) Reductions under P.L. 99-177	---	---	1,074
Proposed Level for FY 1986	250	256	17,803
Estimate, FY 1987	255	261	20,899

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1987

	ACTUAL FY 85		AUTHORIZED LEVEL FY 86		BUDGET ESTIMATE FY 87		INCREASE OR DECREASE (-) FOR 1987 Total Changes		Program Changes		Other Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
1. Law Enforcement Training	130	8,510	137	8,835	142	10,764	5	1,929	5	1,727	-	202
2. Plant Operations	115	6,962	115	6,214	115	6,467	-	253	-	-	-	253
3. Minor Construction & Maintenance	-	2,100	-	2,100	-	3,000	-	900	-	900	-	-
4. State and Local Training	4	722	4	654	4	668	-	14	-	-	-	14
Unobligated Balance	-	47	-	-	-	-	-	-	-	-	-	-
Total appropriation, authorized level, and budget estimate	249	18,341	256	17,803	261	20,899	5	3,096	5	2,627	-	469
Permanent positions established	(247)		(250)		(255)							

February 4, 1986

SALARIES & EXPENSES, FEDERAL LAW ENFORCEMENT TRAINING CENTER

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987

	ACTIVITY 1			ACTIVITY 2			ACTIVITY 3			ACTIVITY 4			TOTAL		
	PP	AP	Amount	PP	AP	Amount	PP	AP	Amount	PP	AP	Amount	PP	AP	Amount
PROGRAM CHANGES															
Increases:															
1. Policy change in funding direct cost of training	5	5	1,727	-	-	-	-	-	-	-	-	-	5	5	1,727
2. Increase in Minor Construction and Maintenance funding	-	-	-	-	-	-	-	-	900	-	-	-	-	-	900
Total, Program Changes	5	5	1,727	-	-	-	-	-	900	-	-	-	5	5	2,627
OTHER CHANGES															
Increases Necessary to Maintain Current Levels:															
1. Personnel Compensation	-	-	48	-	-	31	-	-	-	-	-	2	-	-	81
2. Health Benefits	-	-	15	-	-	10	-	-	-	-	-	1	-	-	26
3. Payment to Employee's Compensation Fund	-	-	34	-	-	22	-	-	-	-	-	1	-	-	57
4. Permanent Change of Station	-	-	15	-	-	-	-	-	-	-	-	-	-	-	15
5. Travel	-	-	7	-	-	11	-	-	-	-	-	-	-	-	18
6. Rent, Communications and Utilities	-	-	13	-	-	69	-	-	-	-	-	5	-	-	87
7. Printing	-	-	2	-	-	-	-	-	-	-	-	-	-	-	2
8. Contracts and Other Services	-	-	137	-	-	83	-	-	-	-	-	5	-	-	225
9. Supplies and Materials	-	-	11	-	-	15	-	-	-	-	-	-	-	-	26
10. Equipment	-	-	20	-	-	12	-	-	-	-	-	-	-	-	32
Subtotal, Increases	-	-	302	-	-	253	-	-	-	-	-	14	-	-	569
Reductions, Non-recurring Costs and Savings:															
1. Productivity Savings	-	-	-100	-	-	-	-	-	-	-	-	-	-	-	-100
Subtotal, Reductions	-	-	-100	-	-	-	-	-	-	-	-	-	-	-	-100
Total, Other Changes	-	-	202	-	-	253	-	-	-	-	-	14	-	-	469
Total Increases in 1987 Compared with Proposed FY 1986 Authorized Level	5	5	1,929	-	-	253	-	-	900	-	-	14	5	5	3,096

February 4, 1986

DEPARTMENT OF THE TREASURY
FEDERAL LAW ENFORCEMENT TRAINING CENTER

Impact of
FY 1986 Gramm-Rudman-Hollings Budget Reduction

- Impact on Bureau programs:

  The total Bureau reduction is $1,024,000. This reduction will be applied to the Dormitory Construction program.

- Effect on workload:

  Because the reduction is applied against the Dormitory Construction project, there is little effect on the Center's funded training workload.

- Effect on services:

  There will be minimal effect on the services provided by the Center. The Center will not construct a new dormitory and some students will continue to be housed in local commerical facilities.

- Effect on ability to fulfill Bureau mission:

  There is minimal effect on the Center's ability to fulfill its mission. However, the continuation of off-Center housing results in higher training costs to the Government.

February 4, 1986

SUMMARY JUSTIFICATION OF FY 1987 BUDGET ESTIMATES

General Statement

The Federal Law Enforcement Training Center provides the necessary facilities, equipment and support services for conducting Basic and Advanced training for Federal law enforcement personnel of the participating organizations. Center personnel conduct the instructional programs for the basic recruit training and also selected portions of the advanced training. In addition, the Center furnishes training on a space-available basis to personnel from several federal organizations which are not formal participants under the Memorandum of Understanding.

In October 1982, the President directed that a National Center for State and Local Training be established as a part of the Federal Law Enforcement Training Center. The major program goals are to present advanced and specialized program offerings and to provide basic technical assistance to State and local law enforcement agencies. FY 1985 was the first year in which partial funding for this activity was provided in the FLETC appropriation.

In FY 1987, direct obligations are estimated to be $20,899,000 which is an increase of $3,096,000 over the fiscal year 1986 Continuing Resolution level of $17,803,000. The total increase of $3,096,000 includes $1,727,000 relating to a training workload funding increase involving 3,525 students and 24,908 student-weeks in the Basic training programs; $900,000 for Minor Construction and Maintenance program; and $569,000 for maintaining current levels. This increase is partially offset by $100,000 in productivity savings. This appropriation request anticipates that the funded Average Resident Student Population (ARSP) will increase from the FY 1986 level of 141 to a FY 1987 ARSP of 620.

A summary of Center activities and selected workload data follows:

1. Law Enforcement Training

During FY 1985, 14,356 students (representing 63,157 student-weeks) were trained in programs for Federal officers. Eighty-one percent (81%) of this training was related to Basic programs in Criminal Investigations (13%), Police Training (47%) and Follow-on Training (21%). Nineteen percent (19%) of the training was related to Center Advanced training (4%) and Agency Advanced training (15%). The total Average Resident Student Population (ARSP) during FY 1985 was 1,215, although a peak population of 1,614 was reached during the period. 12,958 students representing 50,098 student-weeks and an ARSP of 963 were trained on a reimbursable basis.

February 4, 1986

The Continuing Resolution level for FY 1986 allows the Center to fund 1,085 students involving 7,332 student-weeks of training (141 ARSP) in the Basic training programs of the Center. Funded costs include student meals, lodging and direct training costs. In addition, on a reimbursable basis the Center currently projects training for 19,803 students representing 82,145 student-weeks of training and an ARSP of 1,580. When combined, this funded and reimbursable training represents an ARSP of 1,721 with a mix of 79% Basic and 21% Advanced in student-weeks of training.

In FY 1987, the budget request provides funding for 4,610 students involving 32,240 student-weeks of training (620 ARSP) in Basic training programs. Beginning in FY 1987, the funding will cover direct training costs only. Participating organizations will pay student travel, meals and lodging costs. This workload represents a 440% increase in funded student-weeks of training over the FY 1986 funded workload. In addition, on a reimbursable basis the Center currently projects training for 12,835 students representing 40,285 student-weeks of training and an ARSP of 775. When combined, this training represents an ARSP of 1,395 with a mix of 75% Basic and 25% Advanced in student-weeks of training.

2. Plant Operations

The Plant Operations activity provides support for the training mission in the areas of Personnel, Financial Operations, Administrative Services, Safety and Security, Facilities Operations and Maintenance, and ADP Operations.

This budget request reflects funding required to support the training workload in the area of facilities support.

3. Minor Construction and Maintenance

The $28 million construction program at FLETC was completed during FY 1982. That closed out the Master Plan construction phase and the Center is now maintaining more than 100 buildings, including housing units (over 1,400 beds) and other physical facilities on its 1500 acre facility. It is also necessary to periodically renovate facilities to meet the changing training requirements.

In FY 1979 Congress approved the use of $10.2 million of previously appropriated construction funds for ongoing requirements for repairs, alterations, and minor construction at the Glynco Facility. These funds have been depleted except for one claim pending before the courts. The FY 1986 salaries and expense funding provides an additional $2.1 million in no-year funding to meet ongoing needs in this critical area.

February 4, 1986

The Center must, beginning in FY 1987, rely completely on the salaries and expenses appropriation for repairs, alterations and minor construction and related equipment funding. It is critical that for FY 1987, the Center appropriations include $3 million in no-year funding to assure that the facility is maintained in a safe condition in order that the training mission requirements may be accomplished.

4. State and Local Training

This program was initiated by the President in October 1982. The Department of Justice provided reversionary Law Enforcement Assistance Administration funds to finance the pilot phase of the program and the initial training conducted in FY 1984. During FY 1985, 1,766 students (representing 1,950 student-weeks) were trained in the program. This training represents 3% of the total Center workload.

The Center's FY 1986 appropriation provides $654 thousand for the State and Local program. This funding level will provide for a core cadre of staff resources to administer and coordinate the National Center; initiate course development, revision and evaluation processes; and meet staffing requirements for course presentations to be delivered both on and off site. State and local agencies will be responsible for all expenses related to salaries, benefits, travel and per diem, and a portion of course delivery costs. This funding will support the training of 2,094 students (2,589 student-weeks). This represents 3% of the total Center workload.

The $668 thousand requested for FY 1987 will continue funding for Program Administration, Program Development Activity, the Advisory Committee and similar overhead activities/requirements. State and local agencies will be responsible for all expenses related to salaries, benefits, travel and per diem, and a portion of course delivery costs. This funding will support the training of 2,118 students (2,637 student-weeks) during FY 1987. The projected training represents 3% of the total Center workload. During each of the years FY 1986 and FY 1987, approximately 1,000 students will be trained at Glynco with the balance trained on an export basis at various sites throughout the country where geographical concentrations of potential students can be identified.

FEDERAL LAW ENFORCEMENT TRAINING CENTER

Federal Funds

General and special funds:

SALARIES AND EXPENSES

For necessary expenses of the Federal Law Enforcement Training Center, as a bureau of the Department of the Treasury, including purchase (not to exceed eight for police-type use) and hire of passenger motor vehicles; not to exceed $75,000 for expenses for student athletic and related activities; uniforms without regard to the general purchase price limitation for the current fiscal year; the conducting of and participating in firearms matches and presentation of awards; not to exceed [$2,100,000] for repair, alteration, minor construction, and related equipment for the Federal Law Enforcement Training Center facility, to remain available until expended; not to exceed $2,000 for official reception and representation expenses; and services as authorized by 5 U.S.C. 3109: Provided, That funds appropriated in this account shall be available for State and local government law enforcement training on a space-available basis; [training of foreign law enforcement officials on a space-available basis with reimbursement of actual costs to this appropriation;] acceptance of gifts; [training of private sector security officials on a space-available basis with reimbursement of actual costs to this appropriation; travel expenses of non-Federal personnel to attend State and local course development meetings at the Center; $23,803,000.] $3,000,000 $20,899,000

February 4, 1986

Federal Law Enforcement Training Center, Salaries & Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1984 Actual	1985 Actual	1986 Program: In 1986 Budget	1986 Program: In 1987 Budget Est.	1987 Estimate	Percent Increase 1987 over 1986
I. Criminal Investigator Training (CIT) (35-day program)						
A. Interior						
1. Bureau of Indian Affairs	8	21	30	30	30	
2. Fish & Wildlife	27	0	12	16	15	
3. National Park Service	10	6	24	24	24	
4. Other	5	14	19	12	17	
B. Justice						
1. Immigration & Naturalization	1	0	200	0	0	
2. U. S. Marshals	120	180	625	480	168	
3. Other	0	0	0	0	0	
C. Treasury						
1. Alcohol, Tobacco & Firearms	102	63	75	72	72	
2. Customs Agents	185	85	50	732	380	
3. Internal Revenue Service (CID)	276	224	175	181	140	
4. Internal Revenue Service (OI)	36	23	67	50	60	
5. Secret Service Agents	193	117	393	80	75	
6. Other	7	2	8	2	8	
D. Other U.S. Government						
1. Agriculture						
(a) Office of Investigation	22	35	20	30	20	
(b) U. S. Forest Service	2	10	15	29	29	
2. General Services Administration						
(a) Federal Protection & Safety	16	13	10	16	11	
(b) Office of Investigation	4	7	15	4	4	
3. Transportation						
(a) Office of Investigation	1	5	25	10	5	
(b) U.S. Coast Guard	14	10	0	20	20	

February 4, 1986

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1984 Actual	1985 Actual	1986 Program In 1986 Budget	1986 Program In 1987 Budget Est.	1987 Estimate	Percent Increase 1987 over 1986
(Continued)						
4. Others						
(a) AMTRAK	6	1	3	7	7	
(b) Department of Defense	7	14	19	36	21	
(c) Department of Labor-OIG	9	10	14	17	7	
(d) Health & Human Services-OIG	77	41	5	46	10	
(e) Housing & Urban Development-OIG	9	4	13	5	5	
(f) Naval Investigative Service	48	96	96	151	118	
(g) State Department	74	108	48	90	90	
(h) U. S. Capitol Police	1	6	6	6	6	
(i) Other	37	49	69	76	58	
E. State and Local	11	2	0	0	0	
TOTAL--Graduates	1,342	1,146	2,031	2,227	1,330	-67%
Student-weeks of Training	8,875	8,058	14,717	16,443	9,842	-67%
Reimbursable--Graduates	779	810	1,674	1,756	573	
--Student-weeks of Training	5,604	5,645	11,512	14,735	3,974	

NOTE: Student allocations are made when budget authority level is determined. All training in excess of allocations is on a reimbursable basis.

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Federal Law Enforcement Training Center, Salaries & Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1984 Actual	1985 Actual	1986 Program In 1986 Budget	1986 Program In 1987 Budget Est.	1987 Estimate	Percent Increase 1987 over 1986
II. Police Training (PT)						
A. Ten Week Program	0	61	0	150	144	
1. Bureau of Indian Affairs	0	61	0	150	144	
B. Nine Week Program	279	253	376	364	346	
1. Bureau of Land Management	2	3	7	2	0	
2. Fish & Wildlife Refuge	54	40	44	65	60	
3. Forest Service	77	92	170	133	133	
4. National Park Service	143	115	150	150	150	
5. Tennessee Valley Authority	2	3	5	14	2	
6. Other	1	0	0	0	1	
C. Eight Week Program	278	282	455	628	533	
1. AMTRAK	15	16	30	30	30	
2. Bureau of Engraving & Printing	13	18	10	18	35	
3. Central Intelligence Agency	0	56	60	70	100	
4. Department of Defense	11	19	43	65	21	
5. FAA Police	27	21	20	35	19	
6. Supreme Court Police	5	12	8	10	10	
7. Treasury Security Force	7	6	10	15	0	
8. U. S. Capitol Police	70	47	96	124	120	
9. USSS Uniformed Division	127	67	140	192	150	
10. Other	3	20	38	49	48	
D. Seven Week Program	0	129	0	378	288	
1. Federal Protection and Safety	0	129	0	378	288	
E. Five Week Program	73	61	96	91	61	
1. Bureau of Engraving & Printing	10	0	0	0	0	
2. Department of Defense	16	21	25	43	5	
3. Library of Congress Police	1	0	0	0	0	
4. U.S. Mint Special Police	13	12	40	35	39	
5. Other	33	28	31	13	17	
TOTAL--Graduates	630	786	927	1,611	1,372	-16%
Student-weeks of Training	4,746	6,850	7,209	12,617	10,891	-16%
Reimbursable--Graduates	294	339	752	1,394	538	
--Student-weeks of Training	2,097	4,157	5,902	11,305	4,411	

NOTE: Student allocations are made when budget authority level is determined. All training in excess of allocations is on a reimbursable basis.

February 4, 1986

Federal Law Enforcement Training Center, Salaries & Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1984 Actual	1985 Actual	1986 Program in 1986 Budget	1986 Program in 1987 Budget Est.	1987 Estimate	Percent Increase 1987 over 1986
III. Integrated Training						
A. Seventeen Week Program						
Border Patrol.....Students	312	604	336	720	720	
Student-weeks	5,132	14,357	5,770	12,384	12,384	
B. Seventeen Week Program						
Park Police.....Students	22	23	48	48	48	
Student-weeks	391	558	826	826	826	
C. Fourteen Week Program						
Immigration Officer Basic Training						
Course (IOBTC).....Students	184	253	336	336	240	
Student-weeks	2,472	3,728	4,704	4,704	3,360	
D. Thirteen Week Program*						
Customs Service (CPOs).....Students	116	81	96	0	0	
Student-weeks	1,417	1,174	1,229	0	0	
E. Eight Week Program**						
Federal Protection & Safety						
(FPOs).....Students	115	204	144	0	0	
Student-weeks	1,136	1,354	1,157	0	0	
F. Eight Week Program***						
Customs Service (Inspectors)..Students	367	252	455	802	500	
Student-weeks	2,500	1,661	3,003	6,416	4,000	
G. Six Week Program**						
Federal Protection & Safety						
(Security Specialists).....Students	67	23	48	0	0	
Student-weeks	500	131	278	0	0	
H. Six Week Program						
Immigration Detention Ofc.....Students	80	52	192	168	168	
Student-weeks	511	377	1,152	1,008	1,008	
TOTAL--Graduates	1,263	1,492	1,655	2,074	1,676	-76%
--Student-weeks of Training	14,009	22,790	18,123	25,338	21,578	-17%
Reimbursable--Graduates	538	849	1,186	1,905	657	
--Student-weeks of Training	5,706	15,873	14,667	22,706	8,746	

NOTE: Student allocations are made when budget authority level is determined. All training in excess of allocations is on a reimbursable basis.

* In FY 1986, Customs discontinued the 13-week program. These students attend the CI and Follow-on programs.
** During FY 1985, Federal Protection and Safety discontinued the 8-week program. These students attend the 7-week program.
*** In FY 1986, Customs lengthened this class from 7 to 8 weeks.

February 4, 1986

Federal Law Enforcement Training Center, Salaries & Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1984 Actual	1985 Actual	1986 Program in 1986 Budget	1986 Program in 1987 Budget Est.	1987 Estimate	Percent Increase 1987 over 1986
IV. Follow-on Basic Training						
A. Treasury						
1. ATF (Agents) (7.2 Wks)	73	96	75	120	120	
2. ATF (Compliance (3.6 Wks)	0	96	0	72	144	
3. Customs (Agents) (5.0 Wks)	221	120	50	732	380	
4. Customs (Import Specialists) (3.6 Wks)	0	100	0	78	77	
5. IRS (CID) (5.8 Wks)	453	374	295	360	280	
6. IRS (OI) (7.6 Wks)	0	0	60	48	58	
B. Interior						
1. Fish & Wildlife (Agents) (5.0 Wks)	0	17	12	16	15	
2. Fish & Wildlife (Refuge) (2.6 Wks)	77	39	44	65	60	
C. Justice						
1. Bureau of Prisons (2.6 Wks)	1,849	1,959	1,920	2,208	1,920	
2. Drug Enforcement Administration (12.0 Wks)	371	373	685	0	0	
3. U.S. Marshals (5.0 Wks)	94	197	625	480	168	
D. Other						
1. Naval Investigative Service (1.8 Wks)	74	0	0	144	0	
2. State Department (3.6 Wks)	41	0	48	24	0	
3. Other	102	122	0	95	0	
TOTAL--Graduates	3,305	3,443	3,814	4,642	3,217	-38%
--Student-weeks of Training	14,415	13,095	20,394	16,110	11,862	-36%
Reimbursable--Graduates	3,081	3,267	3,415	4,209	1,267	
--Student-weeks of Training	13,835	12,059	17,415	14,430	4,802	

NOTE: Student allocations are made when budget authority level is determined. All training in excess of allocations is on a reimbursable basis.

February 4, 1986

Federal Law Enforcement Training Center, Salaries & Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1984 Actual	1985 Actual	1986 Program in 1986 Budget	1986 Program in 1987 Budget Est.	1987 Estimate	Percent Increase 1987 over 1986
V. Center Advanced Training						
A. Advanced Law Enforcement Photography (1.6 Wk).	76	87	192	166	162	
B. Advanced Microcomputer (.8 Wk).....	13	24	23	107	85	
C. Advanced Marine Law Enforcement (3.8 Wk).....	0	0	0	58	65	
D. Archeological Resources Protection (2 Wk).....	29	47	77	60	69	
E. Basic Instructor (2 Wk).....	63	40	118	99	84	
F. Basic Microcomputer (1 Wk).....	110	157	33	178	110	
G. Computer Fraud Investigations (2 Wk).....	59	98	231	328	188	
H. Continuing Legal Education (.6 Wk).....	0	0	0	66	55	
I. Defensive Evasive Security (1.0 Wk).....	0	0	0	71	24	
J. Driver Instructor (2 Wk).....	6	23	34	56	69	
K. Executive Microcomputer (.6 Wk).....	12	5	11	37	30	
L. Firearms Instructor (2 Wk).....	86	239	315	355	277	
M. Introduction to Criminal Investigations (2 Wk)	0	72	47	172	41	
N. Law Enforcement Spanish (2.0 Wk).....	0	154	0	326	282	
O. Marine Law Enforcement (3.8 Wks).....	118	122	186	181	130	
P. National Wildfire Investigation (2 Wk).....	21	25	64	57	65	
Q. Officer Safety and Survival (1.6 Wk).....	0	0	96	157	157	
R. Procurement & Contract Fraud (1 Wk) Export....	53	25	123	207	119	
S. Vehicle Accident Investigation (.8 Wk).....	23	0	84	51	30	
T. Vehicle Accident Investigation (.8 Wk) Export.	13	13	0	0	0	
U. White Collar Crime (2 Wk).....	285	275	450	484	334	
V. Other.....	59	84	70	0	0	
TOTAL - Graduates	1,026	1,490	2,152	3,216	2,356	-37%
- Student-weeks of Training	2,042	2,746	4,072	5,781	4,256	-36%
Reimbursable - Graduates	1,026	1,490	2,152	3,216	2,356	
- Student-weeks of Training	2,042	2,746	4,072	5,781	4,256	

February 4, 1986

Federal Law Enforcement Training Center, Salaries & Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1984 Actual	1985 Actual	1986 Program in 1986 Budget	1986 Program in 1987 Budget Est.	1987 Estimate	Percent Increase 1987 over 1986
VI. Agency Advanced Training						
A. Bureau of Alcohol, Tobacco & Firearms	477	500	854	878	877	
Student-weeks of Training	737	580	1,543	916	1,074	
B. Bureau of Indian Affairs	0	178	0	265	288	
Student-weeks of Training	0	545	0	770	864	
C. Bureau of Prisons	354	309	288	668	668	
Student-weeks of Training	438	288	320	708	708	
D. Customs Service	858	777	1,234	767	1,151	
Student-weeks of Training	1,734	1,236	2,834	1,594	2,746	
E. Drug Enforcement Administration	415	528	1,850	610	0	
Student-weeks of Training	627	683	4,625	1,360	0	
F. Federal Protection & Safety	57	210	929	422	0	
Student-weeks of Training	121	456	1,858	911	0	
G. Fish & Wildlife Service	192	268	445	469	445	
Student-weeks of Training	190	284	480	528	480	
H. Immigration & Naturalization Service	483	797	1,536	1,632	1,656	
Student-weeks of Training	870	1,576	3,686	3,624	3,974	
I. Internal Revenue Service	380	413	246	172	86	
Student-weeks of Training	505	548	478	321	160	
J. National Park Service (Rangers)	129	117	96	96	96	
Student-weeks of Training	121	105	96	96	96	
K. U.S. Marshals Service	778	983	1,379	860	1,861	
Student-weeks of Training	1,728	1,608	2,150	1,652	2,575	
L. U.S. Park Police	16	1	0	0	0	
Student-weeks of Training	4	1	0	0	0	
M. Other	1,553	918	601	484	571	
Student-weeks of Training	2,520	1,708	1,381	708	1,419	
TOTAL - Graduates	5,687	5,999	9,458	7,323	7,494	2%
Student-weeks of Training	9,045	9,618	19,451	13,188	14,096	6%
Reimbursable - Graduates	5,687	5,999	9,458	7,323	7,494	
- Student-weeks of Training	9,045	9,618	19,451	13,188	14,096	

February 4, 1986

Federal Law Enforcement Training Center, Salaries & Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1984 Actual	1985 Actual	1986 Program In 1986 Budget	1986 Program In 1987 Budget Est.	1987 Estimate	Percent Increase 1987 over 1986
VII. National Center for State and Local Law Enforcement Training						
A. Advanced Arson for Profit Investigations (1.6 Wks)	133	75	77	108	108	
B. Advanced Explosives Investigative Techniques (1.6 Wk)	91	97	90	99	99	
C. Advanced Law Enforcement Photography (1.6 Wks)	22	19	24	22	22	
D. Advanced Microcomputer (.8 Wks)	0	5	0	6	6	
E. Archeological Resources Protection (1 Wk)	1	2	6	4	4	
F. Archeological Resources Protection (1 Wk) Marana	0	1	0	0	0	
G. Basic Instructor (2 Wks)	0	1	4	0	0	
H. Basic Microcomputer (1 Wk)	0	15	0	20	20	
I. Cargo Theft Investigation (1.8 Wks)	27	42	48	48	48	
J. Child Abuse (.8 Wk)	151	173	180	225	225	
K. Child Abuse (.8 Wk) Export	0	451	0	225	225	
L. Computer Fraud Investigation (2 Wks)	4	19	10	22	22	
M. Contraband Cigarette Smuggling Investigation (1 Wk)	55	46	60	74	74	
N. Court Security (1 Wk)	80	116	120	80	80	
O. Driver Instructor (2 Wks)	18	0	50	32	32	
P. Executive Microcomputer (.4 Wks)	0	2	0	0	0	
Q. Firearms Instructor (2 Wks)	0	1	6	0	0	
R. Fraud and Financial Investigations (2 Wks)	99	143	150	150	150	
S. Fugitive Investigators Course (2 Wks)	0	5	0	48	72	
T. Hazardous Waste (1 Wk)	0	8	93	60	60	
U. Law Enforcement Spanish (2 Wks)	0	7	0	10	10	
V. Marine Law Enforcement (3.8 Wks)	12	16	36	16	16	
W. Missing Children (.6 Wks)	0	0	90	0	0	
X. National Wildfire Investigations (2 Wks)	2	0	6	4	4	
Y. Officer Safety and Survival (1.6 Wks)	0	15	24	0	0	
Z. Police Operations Leading to Improved Children and Youth Services (.6 Wks)	163	60	135	135	135	

February 4, 1986

Federal Law Enforcement Training Center, Salaries & Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1984 Actual	1985 Actual	1986 Program In 1986 Budget	1986 Program In 1987 Budget Est.	1987 Estimate	Percent Increase 1987 over 1986
(Continued)						
AA. Police Operations Leading to Improved Children & Youth Services I (.6 Wks) Export	287	170	300	270	270	
AB. Police Operations Leading to Improved Children and Youth Services II (.6 Wks)	44	80	180	48	48	
AC. Police Operations Leading to Improved Children and Youth Services II (.6 Wks) Export	0	24	0	70	70	
AD. Prison Crisis Response Planning (1 Wk)	7	17	96	48	48	
AE. Prison Crisis Response Planning (1 Wk) Marana	0	0	0	24	24	
AF. Protective Operations Briefing (.6 Wks)	58	34	60	60	60	
AG. Questioned Documents (1.8 Wks)	58	39	48	72	72	
AH. Questioned Documents (1.8 Wks) Marana	0	0	0	48	48	
AI. Technical Investigative Equipment (2 Wks)	0	9	48	48	48	
AJ. Undercover Investigative Techniques (1.6 Wks)	44	46	48	48	48	
AK. Vehicle Accident Investigation (.8 Wk)	7	0	4	0	0	
AL. Violent Extremist Groups in America (7.2 Wks)	8	0	0	0	0	
AM. White Collar Crime (2 Wks)	7	7	10	0	0	
AN. Other	11	16	0	0	0	
TOTAL - Graduates	1,359	1,766	1,998	2,094	2,118	1%
- Student-weeks of Training	1,738	1,950	2,549	2,589	2,637	2%
Reimbursable - Graduates	1,359	1,766	1,998	2,094	2,118	
- Student-weeks of Training	1,738	1,950	2,549	2,589	2,637	

February 4, 1986

Federal Law Enforcement Training Center, Salaries & Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1984 Actual	1985 Actual	1986 Program In 1986 1/ Budget	In 1987 2/ Budget Est.	1987 2/ Estimate	Percent Increase 1987 over 1986
VIII. Summary						
A. Criminal Investigator Basic						
Students	1,242	1,146	2,031	2,222	1,330	
Student-weeks	8,875	8,058	14,217	16,463	9,842	
B. Police Basic						
Students	630	786	927	1,611	1,372	
Student-weeks	4,746	6,850	7,209	12,617	10,891	
C. Police Integrated Basic						
Students	1,263	1,492	1,655	2,074	1,676	
Student-weeks	14,009	22,790	18,123	25,338	21,578	
D. Follow-on Basic						
Students	1,205	3,443	3,814	4,442	3,217	
Student-weeks	14,415	13,095	20,394	16,110	11,862	
E. Center Advanced						
Students	1,026	1,490	2,152	3,216	2,356	
Student-weeks	2,042	2,766	4,072	5,781	4,256	
F. Agency Advanced						
Students	5,687	5,999	9,458	7,323	7,494	
Student-weeks	9,045	9,618	19,451	13,188	14,096	
G. State and Local						
Students	1,359	1,766	1,998	2,094	2,118	
Student-weeks	1,738	1,950	2,549	2,589	2,637	
TOTAL Students	14,412	16,122	22,035	22,982	19,563	-17%
Student-weeks	54,870	65,107	86,015	92,066	75,162	-22%
Average Resident Student Population (ARSP)	1,055	1,252	1,654	1,771	1,445	

February 4, 1986

WEDNESDAY, MARCH 5, 1986.

UNITED STATES CUSTOMS SERVICE

WITNESSES

FRANCIS A. KEATING, ASSISTANT SECRETARY, ENFORCEMENT AND OPERATIONS

WILLIAM VON RAAB, COMMISSIONER OF CUSTOMS

JILL E. KENT, DEPUTY ASSISTANT SECRETARY FOR DEPARTMENT FINANCE AND PLANNING

WILLIAM ROSENBLATT, ASSISTANT COMMISSIONER, ENFORCEMENT

EUGENE MACH, ASSISTANT COMMISSIONER, INSPECTION AND CONTROL

MICHAEL LANE, ASSISTANT COMMISSIONER, COMMERCIAL OPERATIONS

D. LYNN GORDON, ACTING COMPTROLLER

MICHAEL SCHMITZ, CHIEF COUNSEL

WAYNE HAMILTON, DIRECTOR, OFFICE OF FINANCIAL MANAGEMENT AND PROGRAM ANALYSIS

Mr. ROYBAL. The Committee will come to order.

The Committee is in session this morning to hear from U.S. Customs Service in regard to the appropriation request for 1987. It is my understanding Mr. Keating will lead off the discussion.

Mr. Keating.

Mr. KEATING. Mr. Chairman, members of the Committee, as Assistant Secretary for Enforcement, it is my pleasure to present to the Committee the United States Customs Service. I have a formal statement I would like to have made a part of the record.

At this time I would merely say, as a newcomer I have been impressed with the integrity of the Service and leadership of Commissioner von Raab and the Service on the flows of completing or implementing at this time.

I have attempted during the course of my brief service to visit two of the major points in Miami and also New York. And I think the Committee will find of interest the information to be provided by the Commissioner with respect to the carrying out of his responsibilities.

It is my pleasure at this time, Mr. Chairman, to introduce Mr. von Raab and ask that he make a presentation for his Bureau.

[The prepared statement of Mr. Keating follows:]

Federal Law Enforcement Training Center, Salaries & Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors (Continued)	1984 Actual	1985 Actual	1986 Program in 1986[1/] Budget	1986 Program in 1987[2/] Budget Est.	1987[2/] Estimate	Percent Increase 1987 over 1986
Reimbursable - Students	12,764	14,774	19,555	21,897	14,953	
- Student-weeks	40,065	52,048	73,672	84,734	42,972	
- ARSP	770	1,001	1,417	1,630	825	
Funded - Students	3,648	1,398	1,560	1,085	4,610	
- Student-weeks	14,805	13,059	12,324	7,332	32,240	
- ARSP	285	251	237	141	620	
Mix CT and Police Basic	25%	23%	20%	32%	28%	
Police Integrated Basic	26%	35%	39%	28%	29%	
Follow-on Basic	26%	20%	14%	17%	16%	
Center Advanced	4%	4%	4%	6%	5%	
Agency Advanced	16%	19%	19%	14%	19%	
State & Local	3%	3%	3%	3%	3%	

1/ Data as of July 1984
2/ Data as of July 1985

February 4, 1986

SUMMARY OF EMPLOYMENT
(Number of Average Positions)

Principal Categories	Actual 1985	Estimated 1986	Estimated 1987	Increases for 1987: Total	Increases for 1987: Program Increases	Increases for 1987: Other
1. Instructors	81	82	87	5	5	--
2. Stenographers, typists and secretaries	74	74	74	--	--	--
3. Training Support	44	44	44	--	--	--
4. Other Administrative Employees	62	68	68	--	--	--
5. Plant Operations	35	35	35	--	--	--
6. Security/Safety	3	3	3	--	--	--
Total Average Positions	749	256	261	5	5	--

THE DEPARTMENT OF THE TREASURY
FEDERAL LAW ENFORCEMENT TRAINING CENTER SALARIES AND EXPENSES
EXPLANATION OF FISCAL YEAR 1987 BUDGET INCREASES AND DECREASES

PROGRAM CHANGES:

Total Program Changes.....5 Average Positions and $2,627,000

1. Increased funding for Basic training.....5 Average Positions and $1,727,000
   Increased funded workload resulting from change in policy wherein direct costs of Basic training are funded. Previously funding covered direct costs plus cost of student travel, meals and lodging at a reduced funded workload level. It is projected that this level will fund 37,740 student weeks of training in FY 1987 compared to 7,332 funded student weeks of training in FY 1986, an increase of 24,908 funded student weeks.

2. Increase for Minor Construction and Maintenance.....0 Average Positions and $ 900,000
   The $2.1 million provided in each of the years FY 1985 and FY 1986 is not adequate to maintain this "special use" facility, which has more than 100 buildings on 1,500 acres of land and represents an investment in excess of $100 million in Government funds. A $900,000 increase is requested for FY 1987 to meet maintenance and changing training program requirements.

OTHER CHANGES:

Total Other Changes.....0 Average Positions and $ 469,000

Increases necessary to Maintain Current Levels (HCL)..... $ 569,000

1. Cost of within grade salary increases..... $ 164,000
   Within grade salary increases, including benefits and payment to Employee's Compensation fund.

2. Increased cost of Permanent Change of Station moves..... $ 15,000
   Additional costs associated with PCS moves.

3. Increased cost of rent, communications and utilities..... $ 87,000
   Increased FTS, local telephone service and utilities cost.

4. Increased cost of travel and transportation..... $ 18,000
   Projected increases in travel costs.

5. Increased cost of student support services and supplies..... $ 253,000
   Includes increases for janitorial, bus transportation, security and grounds maintenance contracts as well as for printing, materials and supplies.

6. Increased equipment costs..... $ 32,000
   Increased costs associated with equipment purchases for training, training support and Information Systems (ADP) Modernization project.

Reductions, Non-recurring Costs and Savings..... -$ 100,000

1. Productivity Savings..... -$ 100,000
   Savings due to productivity improvements.

February 4, 1986

THE DEPARTMENT OF THE TREASURY
FEDERAL LAW ENFORCEMENT TRAINING CENTER
SALARIES AND EXPENSES
STANDARD CLASSIFICATION SCHEDULE
(Direct Obligations Only)

	Actual 1985	Proposed Authorized Level 1986	Estimate 1987	1987 Increase Over 1986
Total number of permanent positions (authorized)	247	250	255	5
Average paid employment	249	256	261	5
Object Classification				
Personnel Compensation:				
Permanent positions	6,787,000	7,807,000	7,907,000	100,000
Positions other than permanent	127,000	122,000	98,000	- 24,000
Other personnel compensation	235,000	254,000	256,000	2,000
Special personal services payments	407,000	404,000	408,000	4,000
Total personnel compensation	7,546,000	8,587,000	8,669,000	82,000
Personnel benefits	974,000	1,265,000	1,284,000	19,000
Travel and transportation of persons	957,000	489,000	542,000	53,000
Transportation of things	29,000	65,000	68,000	3,000
Rent, communications and utilities	1,350,000	1,553,000	2,522,000	969,000
Printing and reproduction	63,000	53,000	173,000	120,000
Other services	3,668,000	2,603,000	2,716,000	113,000
Supplies and materials	977,000	550,000	1,366,000	816,000
Equipment	779,000	536,000	559,000	23,000
Lands and structures	1,951,000	2,100,000	3,000,000	900,000
Tort Claims	0	2,000	0	- 2,000
Total obligations	18,794,000	17,803,000	20,899,000	3,096,000
Unobligated balance	47,000	0	0	0
Total Appropriation, Authorized Level, and Budget Estimate	18,341,000	17,803,000	20,899,000	3,096,000

February 4, 1986

DEPARTMENT OF THE TREASURY
FEDERAL LAW ENFORCEMENT TRAINING CENTER
SALARIES AND EXPENSES

DETAIL OF PERMANENT POSITIONS
(AVERAGE)

20-0106-0-1-751	Actual FY 1985	Authorized FY 1986	Estimate FY 1987
ES-4	1	1	1
ES-3	1	1	1
Subtotal	2	2	2
GS/GM-15	6	6	6
GS/GM-14	11	11	11
GS/GM-13	46	47	48
GS-12	20	22	24
GS-11	32	33	35
GS-9	21	22	22
GS-8	3	3	3
GS-7	14	15	15
GS-6	14	14	14
GS-5	20	21	21
GS-4	8	8	8
GS-3	5	5	5
GS-2	1	1	1
Subtotal	201	208	213
Ungraded	40	40	40
Total permanent positions	243	250	255
Unfilled positions, end of year	4	-	-
Total permanent employment, end of year	247	250	255

February 4, 1986

DEPARTMENT OF THE TREASURY
FEDERAL LAW ENFORCEMENT TRAINING CENTER
SALARIES AND EXPENSES

AVERAGE GRADES AND SALARIES

20-0106-0-1-751	Actual FY 1985	Authorized FY 1986	Estimate FY 1987
Average ES Salary	$67,466	$68,006	$68,550
Average GS grade - Includes GM-13-15	9.86	9.96	10.06
Average GS salary	$30,660	$30,905	$31,152
Average salary of ungraded positions	$25,210	$25,412	$25,615

February 4, 1986

Department of the Treasury
United States Customs Service
Introductory Statement of
The Honorable Francis A. Keating, II
Assistant Secretary (Enforcement and Operations)
For Presentation to the Subcommittee on Appropriations

Mr. Chairman and Members of the Committee:

I am pleased to appear before you today in support of the annual appropriations request of the U.S. Customs Service for fiscal year 1987. Mr. Chairman, with me today are John F. W. Rogers, Assistant Secretary for Management, William von Raab, Commissioner of Customs, key staff members of the U.S. Customs Service, and Jill E. Kent, Deputy Assistant Secretary for Departmental Finance and Planning.

The budget request for the U.S. Customs Service is 693,000,000 dollars for salaries and expenses, and 54,700,000 dollars for operations and maintenance of the air program. The fiscal year 1987 budget request for the U.S. Customs Service reflects the President's policies to control government spending.

The requested funds are necessary to carry out the many missions of the U.S. Customs Service. As you know, Mr. Chairman Customs is a law enforcement agency with a critical

role in enforcing our laws against the importation of narcotics, in the investigation of currency violations, in combatting commercial fraud and other trade violations, and in stemming the illegal exportation of critical technology. It is also responsible for administering this nation's complex tariff laws, including the collection of duties, the processing of international passenger traffic, and the overall facilitation of vast quantities of imported merchandise. In fiscal year 1985, the U.S. Customs Service processed 290 million passengers and 6.8 million formal entries and collected $13.2 billion in revenue.

In its efforts to use its resources wisely, Customs are law abiding, Customs continues to search for methods and procedures that will enable them to focus their greatest efforts on the "high-risk" passengers and cargo. The Treasury Enforcement Communication System (TECS) and the Automated Commercial System (ACS) are two systems that Customs has developed to achieve this goal. These systems, when fully operational, will greatly assist Customs personnel in identifying the "high-risk" passengers and cargo that require close inspection. The Automated Commercial System also will provide benefits in faster entry processing, faster cargo release, and reduction in paper- work. This budget request seeks additional funds to enhance these systems.

The U.S. Customs Service made significant advances in its law enforcement program during fiscal year 1985.

The Customs air and marine drug interdiction program made significant contributions to overall Federal drug enforcement. This program seized more than 50,000 pounds of cocaine last fiscal year, an 83% increase over fiscal year 1984, and established a significant deterrent along the South Florida coastline. Aircraft currently operated by Customs in its interdiction efforts include high speed jet interceptors equipped with radar and infrared detector sensors, long range tracker, high performance helicopters, single and multi-engine support aircraft, and P-3A airborne detection platforms.

Customs also contributed to our country's fight against drugs and drug-related crime through its participation in the President's Organized Crime Drug Enforcement Task Forces. Customs has played a key role in the task forces since their establishment in fiscal year 1983. In fiscal year 1985, cases involving Customs participation resulted in 909 indictments 547 arrests, 405 convictions, and 34 million dollars in U.S. currency and property seizures. In its Task Force work, Customs, along with IRS, investigates the financial underpinnings of drug trafficking organizations and other criminal enterprises.

Customs continues to emphasize Operation Tripwire, its program to combat all types of commercial fraud. This effort concentrates on quota violations in connection with steel and textile imports, trademark and copyright violations, and other violations of our country's trade laws. In fiscal year 1985, Operation Tripwire produced 54 arrests and 230 indictments. Seizures had a total value of 67.8 million dollars.

Under Operation Exodus, Treasury combats the illegal transfer of technology critical to Eastern-bloc countries as well as illegal arms exportations. Now in its fifth year, this program continues as a key component in our country's efforts to avoid the loss of our defense-related technological secrets. In fiscal year 1985, Exodus teams made 700 seizures valued at 75 million dollars.

In summary, Mr. Chairman, the U.S. Customs Service has made substantial strides in support of critical enforcement missions of our government. It has also made progress in streamlining and improving its important commercial and passenger processing functions.

This concludes my opening statement. I will now ask the Commissioner of Customs, Mr. William von Raab, to provide you with his prepared statement, and we will then be pleased to respond to questions you or other members of the committee may have.

Mr. ROYBAL. Mr. Commissioner, will you proceed in any manner you desire.

OPENING REMARKS

Mr. VON RAAB. Thank you, Mr. Chairman, Congressman Skeen, Congressman Coleman. It is always a pleasure to discuss Customs programs with all of you.

Customs Service fiscal 1987 appropriation request is for $693,000,000 and 12,494 direct average positions for Salaries and Expenses and $54,700,000 for Operations and Maintenance of the Air Program. Customs is also requesting an appropriation of $8 million for the Forfeiture Fund and $365,000 to recover anticipated reimbursements for Services at Small Airports.

Customs Salaries and Expenses Fiscal Year 1987 appropriation request represents a net increase of $11,000,000 from funds currently requested in FY 1986. Included in the FY 1987 Salaries and Expenses appropriation request are $11,000,000 for ongoing automations and enforcement communication programs, $24,792,000 for increases necessary to maintain current operating levels, management savings and non-recurring expenses of $15,127,000, and savings of $9,665,000 achieved by implementation of a selective hiring policy.

Customs Air Program Operations and Maintenance appropriations request of $54,700,000 for FY 1987 represents an increase of $2,200,000 from funds requested in fiscal '86 for maintaining current levels of operations.

This budget request also includes proposed adjustments to the FY 1986 continuing resolution level approved by Congress. The Salaries and Expenses appropriation includes a reduction of $30,831,000 and 777 average positions as required by the Gramm-Rudman-Hollings legislation as well as a proposed rescission of $4,169,000. The Air Program Operations and Maintenance FY 1986 appropriation includes a reduction of $3,225,000 pursuant to Gramm-Rudman-Hollings and a proposed rescission of $19,275,000.

The budget discussions this morning are going to be very difficult because of the various reference points concerning where we started and where we are going. I want to emphasize that I am going to try my best, but we have a continuing resolution, a rescission, and Gramm-Rudman-Hollings for FY 1986, and then we have the budget request for FY 1987.

I will do my best to keep these different reference points and baselines straight, although there may still be some confusion.

At the outset, I wish to allay the concerns many of you have expressed on the impact of Gramm-Rudman and other reductions proposed for Customs in FY 1986 and FY 1987. Frankly, the budget levels for S and E and Air Program O&M do not permit us to do everything we might wish to do during these years. Our situation, however, is similar to many other agencies. The current budget deficit means that each of us must do our share and we are willing to do ours.

You will note that both FY 1986 and FY 1987 proposed budget levels do require some hard choices. However, in implementing the necessary actions, Customs policy has been to minimize any impact

upon the operational and enforcement capabilities of Customs field units. Wherever possible the cutbacks are being imposed so that revenue collection, passenger, vehicle and cargo processing are not significantly impacted. On the enforcement side, Customs air, marine, and investigative activities are to remain fully staffed, and investigative casework will be funded at its previous levels. On the whole, we believe these goals are being achieved.

CUSTOMS INITIATIVES

In FY 1987 Customs will continue to expedite development and implementation of its automated commercial system. When completed, we believe that this system will raise productivity and continue to provide efficient service as workload increases. We are requesting $3 million for this enhancement, which will ultimately pay for itself in cost savings for Customs and the importing community.

Another initiative included in Customs FY 1987 budget request is the development of an up-to-date Treasury enforcement communications system applicable to the current enforcement environment. This is probably better known to you as the Customs lookout system, although it does many other things. The $8 million requested for this enhancement will expand and integrate the existing enforcement efforts.

We are pleased to report that Customs efforts directed towards strengthening law enforcement programs produced significant results in the 1985 fiscal year. Customs heroin and cocaine interceptions have set new records. Heroin seizures in FY 1985 reached 785 pounds, up 18 percent from the previous year. The results largely reflect intensified inspections at airports, especially cargo, and the use of improved inspectional techniques.

With regard to cocaine, Customs enforcement groups have produced outstanding results during the past five years. In 1981 fiscal year we seized 3,741 pounds of cocaine. In FY 1985 seizures were significantly higher, reaching over 50,000 pounds for an increase of 83 percent above the previous year, and a 13 fold increase above FY 1981. In terms of disruption of organized smuggling groups, in FY 1985 almost $14 million in cocaine sales were taken off the streets.

CRITICAL TECHNOLOGY

Another enforcement problem of major concern to Customs is critical technology illegally leaving the country. In line with President Reagan's call to block the illegal transfer of high technology to Eastern-bloc countries, Customs is continuing Operation Exodus. We have implemented more effective detection and investigative efforts at major ports throughout the country, including the development of new surveillance approaches, improved cargo inspections, and improved intelligence and investigative efforts.

Customs Service goals also include efficient cargo and passenger processing. Since the vast majority of Customs transactions involve law abiding persons and firms, Customs officers are directing their primary attention to what we call high-risk passengers and cargo. It is clear to me that effective enforcement and efficient facilitation

can go hand in hand without contradiction and without diminishing our law enforcement.

INVESTIGATIVE EFFORTS

For several years Customs has emphasized its fraud efforts against unauthorized steel, textiles, wearing apparel imports, drawback, and trademark and copyright violations. In FY 1986 task force operations will continue to direct their efforts against illegal merchandise before it enters U.S. commerce. The task forces will focus on high risk importations at major ports.

Our investigative attack on criminal organizations under provisions of the Bank Secrecy Act and through their financial transactions has paid excellent dividends in terms of its impact on the largest smuggling groups operating in this country. Multi-agency investigative and prosecutorial teams, operating under the leadership of the local U.S. Attorney, are currently active in cities with large scale currency movements related to drug trafficking.

As I have stated in my previous appearances before this Subcommittee, I believe an important part of my mandate is to implement efficient and effective operations and management at the lowest possible cost.

At this time when the entire federal budget must be closely monitored to eliminate excessive and duplicative costs, and significant budgetary reductions are required, this goal becomes a priority for all agency managers. I believe Customs is no exception and must shoulder its full share of the cutbacks.

MANAGEMENT INITIATIVES

In FY 87 we are proposing to incorporate in our budget management initiatives that will produce over $21 million in savings. In addition to a selective hiring policy which limits hiring to priority enforcement and revenue protection programs, the Customs Service will implement specific productivity savings derived from automation and streamlined port and district operations. Customs is proposing to go to single shifts at airports, consolidate appraisement centers, and redesignate districts. Customs processing and enforcement programs will be structured around the concept of a fully operational redesignated district, staffed by a full complement of inspectors, import specialists, and other enforcement agents. Entries will continue to be filed as previously, but the actual processing will be at the appropriate district office.

AIR PROGRAM

A primary concern of the Customs Service and the Treasury Department has been the effectiveness of the air interdiction program against the smuggling of narcotics by private aircraft. In FY 1985 Customs Air Program seized 15,539 pounds of cocaine, a 64 percent increase over FY 84. In FY 86 Customs is requesting $52,500,000 for Air Program Operations and Maintenance, which includes the Gramm-Rudman reduction and a proposed rescission. The FY 1987 budget total of $54,700,000 includes sufficient additional funds for projected cost increases. However, in both years the proposed

budget levels will support continued full operations of all Customs air units currently available.

In contrast to FY 1985, four P-3A detection aircraft will be operational this year; they are scheduled to operate an average of 100 hours a month. In support of the anticipated increase in detected smuggler aircraft, the program will be operating eight new high endurance tracker aircraft. The first of these aircraft is expected in March of '86, with the remainder becoming available by July 1986. Sufficient funds are also available during these years for two significant program enhancements: for the preparations necessary to begin the establishment of two command, control, communications, and intelligence centers, including facilities design, site selection, and purchase of core equipment; and, the modification of four C–12 Marine support aircraft.

MARINE PROGRAM

In conjunction with the Air Program, Customs Marine program protects the sea approaches to the Nation's borders. Confronted with similar growth in its smuggling program, Customs has developed a new operational approach, which includes marine modules and a special Blue Lightning Strike Force to counter the threat of smuggling by private vessels; all of which will be operating during FY 86. The concept of the Blue Lightning Strike Force was developed from a special operation called Blue Lightning, which disrupted the flow of drugs from the Bahamas. By pressuring the smugglers to drastically change their normal trafficking patterns, this operation alone seized 36,000 pounds of marijuana, 5,500 pounds of cocaine, and 26 vessels during just a two-week period.

CONCLUDING REMARKS

In these, as well as future years, there will not be sufficient funds to achieve all of Customs goals related to controlling drug smuggling or processing of cargo, persons, and vehicles. However, Customs has begun to tailor its operational responsibilities to its projected resources. Although there may be some temporary dislocations, we firmly believe that our proposals will not seriously inconvenience any groups and will permit us to retain a strong interdiction effort at our land, sea, and air borders.

This concludes my introductory statement. I am, of course, available to answer your questions. I have a longer formal statement which I would ask be submitted for the record.

And I would like to introduce, at my left, Ms. Lynn Gordon, who is the Acting Controller of the Customs Service; Mr. William Rosenblatt, the Assistant Commissioner for Enforcement. I also have available for questions our Chief Counsel, Michael Schmitz; our Assistant Commissioner for Inspection, Gene Mach; and a number of other Customs officers who have more detailed knowledge in some of our programs.

Thank you.

[The prepared statement of Mr. von Raab follows:]

U.S. CUSTOMS SERVICE

STATEMENT OF WILLIAM VON RAAB

COMMISSIONER OF CUSTOMS

FOR PRESENTATION BEFORE THE SUBCOMMITTEE ON APPROPRIATIONS

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, WE APPRECIATE THIS OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO PRESENT THE U.S. CUSTOMS SERVICE FY 1987 APPROPRIATION REQUEST OF $693,000,000 AND 12,494 DIRECT AVERAGE POSITIONS FOR SALARIES AND EXPENSES AND $54,700,000 FOR OPERATIONS AND MAINTENANCE OF THE AIR PROGRAM. CUSTOMS ALSO IS REQUESTING AN APPROPRIATION OF $8,000,000 FOR THE FORFEITURE FUND AND $365,000 TO RECOVER ANTICIPATED REIMBURSEMENTS FOR SERVICES AT SMALL AIRPORTS.

CUSTOMS SALARIES AND EXPENSES FY 1987 APPROPRIATION REQUEST REPRESENTS A NET INCREASE OF $11,000,000 FROM FUNDS CURRENTLY REQUESTED IN FY 1986. INCLUDED IN THE FY 1987 S&E AUTHORIZATION REQUEST ARE $11,000,000 FOR ONGOING AUTOMATION AND ENFORCEMENT COMMUNICATION PROGRAMS; $24,792,000 FOR INCREASES NECESSARY TO MAINTAIN CURRENT OPERATING LEVELS; MANAGEMENT SAVINGS AND NON-RECURRING EXPENSES OF $15,127,000; AND SAVINGS OF $9,665,000 ACHIEVED BY IMPLEMENTATION OF A SELECTIVE HIRING POLICY.

CUSTOMS AIR PROGRAM OPERATIONS AND MAINTENANCE APPROPRIATION REQUEST OF $54,700,000 FOR FY 1987 REPRESENTS AN INCREASE OF $2,200,000 FROM FUNDS REQUESTED IN FY 1986 FOR MAINTAINING CURRENT LEVELS OF OPERATIONS.

THIS BUDGET REQUEST ALSO INCLUDES PROPOSED ADJUSTMENTS TO THE FY 1986 CONTINUING RESOLUTION LEVEL APPROVED BY CONGRESS. THE SALARIES AND EXPENSES APPROPRIATION INCLUDES A REDUCTION OF $30,831,000 AND 777 AVERAGE POSITIONS AS REQUIRED BY GRAMM-RUDMAN-HOLLINGS LEGISLATION AS WELL AS A PROPOSED RESCISSION OF $4,169,000. THE AIR PROGRAM OPERATIONS AND MAINTENANCE FY 1986 APPROPRIATION INCLUDES A REDUCTION OF $3,225,000 PURSUANT TO GRAMM-RUDMAN-HOLLINGS AND A PROPOSED RESCISSION OF $19,275,000.

CUSTOMS POLICY IN IMPLEMENTING THESE REDUCTIONS IS TO MINIMIZE ANY IMPACT UPON THE OPERATIONAL AND ENFORCEMENT CAPABILITIES OF CUSTOMS FIELD UNITS. WHEREVER POSSIBLE, THE CUTBACKS ARE BEING IMPOSED SO THAT REVENUE COLLECTIONS, PASSENGER, VEHICLE, AND CARGO PROCESSING ARE NOT SIGNIFICANTLY AFFECTED. ON THE ENFORCEMENT SIDE, CUSTOMS AIR, MARINE, AND INVESTIGATIVE PROGRAMS ARE TO REMAIN FULLY STAFFED AND INVESTIGATIVE CASEWORK WILL BE FUNDED AT ITS PREVIOUS LEVELS. ON THE WHOLE, WE BELIEVE THESE GOALS ARE BEING ACHIEVED.

AT THE OUTSET, I WISH TO ALLAY THE CONCERNS MANY OF YOU HAVE EXPRESSED ON THE IMPACT OF GRAMM-RUDMAN AND OTHER REDUCTIONS PROPOSED FOR CUSTOMS IN FY 1986 AND FY 1987. FRANKLY, THE BUDGET LEVELS FOR S&E AND THE AIR PROGRAM DO NOT PERMIT US TO DO EVERYTHING WE MIGHT WISH TO DO DURING THESE YEARS. OUR

SITUATION, HOWEVER, IS PROBABLY VERY SIMILAR TO MANY OTHER AGENCIES. THE CURRENT BUDGET DEFICIT MEANS THAT EACH OF US MUST DO OUR SHARE AND WE ARE WILLING AND ABLE TO DO OURS.

THEREFORE, YOU WILL NOTE THAT BOTH OUR FY 1986 AND FY 1987 PROPOSED BUDGET LEVELS REQUIRE SOME "HARD" CHOICES. IN THESE, AS WELL AS FUTURE YEARS, THERE WILL NOT BE SUFFICIENT FUNDS TO ACHIEVE ALL OF THE GOALS RELATED TO CONTROLLING DRUG SMUGGLING OR PROCESSING OF CARGO, PERSONS, AND VEHICLES. UNDER THESE CIRCUMSTANCES, IT IS IMPERATIVE THAT CUSTOMS BEGIN TAILORING ITS OPERATIONAL RESPONSIBILITIES TO ITS PROJECTED RESOURCES. DURING THIS TRANSITION PERIOD, THERE MAY BE SOME DISLOCATION, BUT WE FIRMLY BELIEVE THAT OUR PROPOSALS WILL NOT PRODUCE ANY SERIOUS INCONVENIENCE FOR IMPORTERS OR TRAVELERS AND WILL PERMIT US TO RETAIN A STRONG INTERDICTION EFFORT AT OUR LAND, SEA, AND AIR BORDERS.

MAJOR ACCOMPLISHMENTS

THE CUSTOMS SERVICE, ONCE THE MAIN SOURCE OF FEDERAL MONIES, STILL CONTINUES TODAY TO COLLECT SIGNIFICANT REVENUES AS WELL AS TO ASSUME THE RESPONSIBILITY FOR INTERDICTING DRUGS AND OTHER CONTRABAND ATTEMPTING TO ILLEGALLY ENTER THE COUNTRY. ALTHOUGH THE PRIMARY OBJECTIVE OF THE TARIFF ACT IS THE PROTECTION OF

AMERICAN INDUSTRY, REVENUE COLLECTIONS FROM ITS ENFORCEMENT PRODUCED $13.2 BILLION IN FY 1985, AND IS PROJECTED TO REACH $15.1 BILLION IN FY 1987.

AS USUAL, CUSTOMS ALSO HAD A BUSY YEAR PROCESSING A HEAVY VOLUME OF TRAFFIC AND TRADE GENERATED BY A GROWING INTERNATIONAL ECONOMY. THE CUSTOMS WORKFORCE CLEARED SOME 290 MILLION PERSONS, 6.9 MILLION MERCHANDISE ENTRIES AND MORE THAN $335 BILLION IN CARGO ENTERING THE COUNTRY. IN ADDITION, ABOUT 90 MILLION VEHICLES, VESSELS, AND AIRCRAFT WERE PROCESSED. PROJECTIONS FOR FY 1987 INDICATE CONTINUED GROWTH AND A HEAVY WORKLOAD IN THE FUTURE.

MANAGEMENT EFFICIENCIES CUSTOMS IMPLEMENTED IN PREVIOUS YEARS INCLUDE IMPROVED ADMINISTRATIVE, COMMERCIAL AND ENFORCEMENT ACTIVITIES. THESE PROGRAMS HAVE ENHANCED PRODUCTIVITY, STREAMLINED PROGRAM OPERATIONS, AND INTRODUCED SIGNIFICANT ORGANIZATIONAL AND FUNCTIONAL EFFICIENCIES. MANY OF THE EFFICIENCIES RESULT FROM CONVERTING LABOR INTENSIVE FUNCTIONS TO MORE AUTOMATED PROCESSING.

AS I STATED ON PREVIOUS OCCASIONS, CUSTOMS WILL ADHERE TO PRESIDENT REAGAN'S PRECEPTS OF STRENGTHENED LAW ENFORCEMENT AND

BETTER MANAGEMENT OF GOVERNMENT RESOURCES. OUR FY 1987 OBJECTIVES WILL BE DIRECTED TO ACHIEVING THE FOLLOWING:

- IMPROVE ENFORCEMENT AGAINST THOSE ILLEGAL ACTIVITIES THAT FALL WITHIN CUSTOMS JURISDICTION BY THE INTRODUCTION OF THE MOST EFFECTIVE TECHNIQUES;

- INCREASE STAFF PRODUCTIVITY BY DEVELOPING AND IMPLEMENTING AUTOMATED SYSTEMS, WHEREVER POSSIBLE, IN ALL MERCHANDISE, REVENUE COLLECTION, AND ENFORCEMENT PROCESSING; AND,

- UPGRADE OPERATIONS BY CONSOLIDATING FUNCTIONS, ELIMINATING DUPLICATIVE ACTIVITIES, UNNEEDED PAPERWORK AND FORMS, AND SIMPLIFYING PROCESSING PROCEDURES.

CUSTOMS EFFORTS DIRECTED TOWARD STRENGTHENING LAW ENFORCEMENT PROGRAMS PRODUCED SIGNIFICANT RESULTS IN FY 1985. HOWEVER, SMUGGLING CONTINUES AS A SIGNIFICANT NATIONAL PROBLEM. WE ARE STILL CONFRONTED WITH AN ILLEGAL INDUSTRY OF BILLIONS OF DOLLARS AND CONTINUAL SMUGGLING ALONG ALL OUR BORDERS.

BUT I DO HAVE GOOD NEWS TO REPORT. CUSTOMS HEROIN AND COCAINE INTERCEPTIONS HAVE SET NEW RECORDS. HEROIN SEIZURES IN FY 1985 REACHED 785 POUNDS, UP 18 PERCENT FROM THE PREVIOUS

YEARS. THE RESULTS LARGELY REFLECT INTENSIFIED INSPECTIONS AT AIRPORTS, ESPECIALLY CARGO, AND THE USE OF IMPROVED INSPECTIONAL TECHNIQUES.

WITH REGARD TO COCAINE, I MUST COMMEND CUSTOMS ENFORCEMENT GROUPS FOR THE OUTSTANDING RESULTS PRODUCED DURING THE PAST FIVE YEARS. IN FY 1981, WE SEIZED 3,741 POUNDS OF COCAINE. IN FY 1985, SEIZURES WERE SIGNIFICANTLY HIGHER, REACHING 50,506 POUNDS, FOR AN INCREASE OF 83.5 PERCENT ABOVE THE PREVIOUS YEAR AND A 13 FOLD INCREASE ABOVE FY 1981. IN TERMS OF DISRUPTION OF ORGANIZED SMUGGLING GROUPS, IN FY 1985 ABOUT $13.8 BILLION IN COCAINE SALES WERE TAKEN OFF THE STREETS AND THESE CRIMINALS WERE PREVENTED FROM POCKETING THE PROFITS.

THESE RESULTS, OF COURSE, LARGELY REFLECT THE HIGH PRIORITY OF CUSTOMS LAW ENFORCEMENT. THE NATION FACES TWO MAJOR PROBLEMS AT ITS BORDERS. THE FIRST IS MASSIVE DRUG SMUGGLING, WHICH HAS BEEN WITH US FOR AT LEAST A GENERATION AND IS NOW ONE OF OUR MAJOR INDUSTRIES. CUSTOMS HAS RESPONDED BY CONTINUING ITS SUCCESSFUL ENFORCEMENT EFFORTS IN SOUTH FLORIDA, ALONG THE SOUTHWEST BORDER, AND AT MAJOR AIRPORTS, WHERE THE MAJORITY OF ILLEGAL NARCOTICS ACTIVITY IS CENTERED. IN SOUTH FLORIDA, LARGE SUMS OF DRUG-RELATED CURRENCY ENTER AND LEAVE THE COUNTRY DAILY TO FINANCE THIS DEADLY INTERNATIONAL TRAFFIC.

ANOTHER ENFORCEMENT PROBLEM IS CRITICAL TECHNOLOGY ILLEGALLY LEAVING THE COUNTRY. IN LINE WITH PRESIDENT REAGAN'S CALL TO BLOCK THE ILLEGAL TRANSFER OF HIGH-TECHNOLOGY TO EASTERN-BLOC COUNTRIES, CUSTOMS IS CONTINUING OPERATION EXODUS. FURTHERMORE, WE HAVE IMPLEMENTED MORE EFFECTIVE DETECTION AND INVESTIGATIVE EFFORTS AT MAJOR PORTS THROUGHOUT THE COUNTRY. TO ACHIEVE THIS GOAL, CUSTOMS HAS DEVELOPED NEW APPROACHES FOR SURVEILLANCES; IMPROVED CARGO INSPECTIONS DIRECTED AT UNCOVERING THESE ILLEGAL EQUIPMENT SHIPMENTS; AND, IMPROVED INTELLIGENCE AND INVESTIGATIVE EFFORTS RELATED TO SHIPMENTS AND POTENTIAL VIOLATORS.

WHILE THE ENFORCEMENT EFFORT IS NOW WELL ON ITS WAY TO ACHIEVING ITS OBJECTIVES, CUSTOMS SERVICE GOALS ALSO INCLUDE EFFICIENT CARGO AND PASSENGER PROCESSING. UNDER OUR CURRENT PROCESSING APPROACH, WE DO NOT BELIEVE THAT EVERY PASSENGER, VEHICLE, PIECE OF BAGGAGE, OR CARGO SHIPMENT MUST BE SEARCHED. SINCE THE VAST MAJORITY OF CUSTOMS TRANSACTIONS INVOLVE LAW-ABIDING PERSONS AND FIRMS, CUSTOMS OFFICERS ARE DIRECTING THEIR PRIMARY ATTENTION TO "HIGH-RISK" PASSENGERS AND CARGO. IT IS CLEAR TO ME THAT EFFECTIVE ENFORCEMENT AND EFFICIENT FACILITATION CAN GO HAND-IN-HAND, WITHOUT CONTRADICTION OR WITHOUT DIMINISHING OUR LAW ENFORCEMENT.

CUSTOMS ALSO IS CONTINUING ITS PRIORITY PROGRAM TO REFORM COMMERCIAL PRACTICES --IN ESSENCE, HOW WE IMPLEMENT THE TARIFF LAWS AND HOW WE PROCESS THE VAST QUANTITY OF IMPORTED MERCHANDISE. IN MEETING OUR GOALS IN COMMERCIAL PROCESSING, WE ARE PUSHING FORWARD WITH CONSOLIDATION, AUTOMATION AND STREAMLINING OF ALL APPLICABLE OPERATIONS.

AT THE HEART OF THIS EFFORT IS THE AUTOMATED COMMERCIAL SYSTEM (ACS). TODAY, AT NUMEROUS PORTS, WE HAVE ON-LINE A COMPREHENSIVE DATA BASE WITH ALL THE FUNCTIONS REQUIRED FOR PROCESSING ELECTRONICALLY TRANSMITTED OR MANUALLY PREPARED ENTRIES. THEREFORE, THE SYSTEM CAN EFFICIENTLY PROCESS ANY AND ALL ENTRIES PREPARED BY BROKERS. ALL REVENUE COLLECTED BY CUSTOMS IS PROCESSED THROUGH ACS, AS IS THE PREPARATION OF A DAILY BROKER STATEMENT. THE SYSTEM IS ALSO BEING INTEGRATED INTO THE OPERATIONS OF LOCAL PORT AUTHORITIES AND MAJOR IMPORTERS. THE IMPORTING COMMUNITY IS COOPERATING IN ITS IMPLEMENTATION. ACS COMPRISES FIFTEEN PRIMARY SUBSYSTEMS SPECIFICALLY DIRECTED TO EACH OF THE MAJOR ACTIVITIES UNDER THE COMMERCIAL SYSTEM. MANY OF THESE MODULES ARE ALREADY IN FULL OPERATION. WHEN FULLY DEVELOPED AND IMPLEMENTED THE SYSTEM WILL PROVIDE IMPROVED MANAGEMENT INFORMATION, MORE EFFICIENT RESOURCE USE, AND INCREASED RESPONSIVENESS TO THE BUSINESS COMMUNITY.

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FY 1987 PLANS

IN FY 1987, CUSTOMS IS PLANNING TO EXPAND AND FULLY DEVELOP ACS AS WELL AS DEVELOP AN UP-TO-DATE TREASURY ENFORCEMENT COMMUNICATIONS SYSTEM (TECS), APPLICABLE FOR TODAY'S ENFORCEMENT ENVIRONMENT.

AUTOMATED COMMERCIAL SYSTEM

THE $3.0 MILLION TO BE SPENT IN FY 1987 WILL ALLOW CUSTOMS TO CONTINUE EXPEDITED DEVELOPMENT AND IMPLEMENTATION OF THE FULL SYSTEM NEEDED TO RAISE PRODUCTIVITY AND CONTINUE EFFICIENT SERVICE AS THE WORKLOAD GROWS. WHEN COMPLETED, ACS WILL SUPPORT FULL SELECTIVITY, DETERMINING WHICH IMPORTS SHOULD BE INTENSIVELY EXAMINED AND THOSE ENTRIES WITH POTENTIAL CLASSIFICATION CHANGES AND INCREASED REVENUE. THIS ENHANCEMENT WILL PAY FOR ITSELF IN COST SAVINGS FOR CUSTOMS AND THE IMPORTING COMMUNITY. IN FY 1987, SYSTEM DEVELOPMENT AND HARDWARE EXPANSION FOR THE FOLLOWING MODULES WILL BE IMPLEMENTED: ANTIDUMPING/COUNTERVAILING DUTY, ENTRY SUMMARY SELECTIVITY, AIR MANIFEST, HARMONIZED SYSTEM AND THE CUSTOMS INFORMATION EXCHANGE.

TREASURY ENFORCEMENT COMMUNCIATION SYSTEM (TECS) II DEVELOPMENT

THE THRUST OF THE DESIGN AND DEVELOPMENT IS TO BUILD A COMPREHENSIVE ENFORCEMENT DATA BASE SYSTEM WHOSE UNDERPINNINGS

ARE STATE-OF-THE-ART HARDWARE, SOFTWARE AND DATA BASE MANAGEMENT SYSTEMS. ALL CURRENT TECS USERS WILL CONTRIBUTE THEIR FIRST HAND EXPERIENCE TO INSURE THAT THE CURRENT DEVELOPMENT MEETS ALL AGENCY REQUIREMENTS. THIS SYSTEM WILL PROVIDE FOR THE EXPANSION AND INTEGRATION OF THE EXISTING AUTOMATED ENFORCEMENT EFFORTS SUCH AS OPERATION EXODUS, THE TREASURY FINANCIAL LAW ENFORCEMENT SYSTEMS AND COMMERCIAL FRAUD, AS WELL AS OTHER ENFORCEMENT EFFORTS. THIS INITIATIVE WILL AFFORD CUSTOMS THE FLEXIBILITY TO MEET THE NUMEROUS INFORMATION REQUIREMENTS OF TODAY'S CUSTOMS ENFORCEMENT PROGRAM. THE $8.0 MILLION INVESTMENT WILL PROVIDE UPGRADED ASSISTANCE AND SUPPORT TO THE TEN ENFORCEMENT AGENCIES IN AND OUTSIDE TREASURY USING THE SYSTEM.

PROPOSED MANAGEMENT EFFICIENCIES

AS STATED IN MY PREVIOUS APPEARANCES BEFORE THIS SUBCOMMITTEE, OTHER CONGRESSIONAL GROUPS, AND BUSINESS AND INDUSTRY GROUPS, I BELIEVE AN IMPORTANT PART OF MY MANDATE AS COMMISSIONER OF CUSTOMS IS TO BRING TO CUSTOMS THE MOST EFFICIENT AND EFFECTIVE OPERATIONS AND MANAGEMENT POSSIBLE AT THE LOWEST POSSIBLE COST. AT THIS TIME, WHEN THE ENTIRE FEDERAL BUDGET MUST BE CLOSELY MONITORED TO ELIMINATE EXCESSIVE AND DUPLICATIVE COSTS; AND SIGNIFICANT BUDGETARY REDUCTIONS ARE

REQUIRED, AS THIS SUBCOMMITTEE IS WELL AWARE, THIS GOAL BECOMES THE HIGHEST PRIORITY FOR ALL AGENCY MANAGERS. CUSTOMS IS NO EXCEPTION AND MUST SHOULDER ITS FULL SHARE OF THE CUTBACKS. THEREFORE, IN FY 1987, WE ARE PROPOSING TO INCORPORATE IN OUR BUDGET, MANAGEMENT INITIATIVES THAT WILL PRODUCE $21,131,000 IN SAVINGS. IN ADDITION TO A SELECTIVE HIRING POLICY, WHICH LIMITS HIRING TO PRIORITY ENFORCEMENT AND REVENUE PROTECTION PROGRAMS, THE CUSTOMS SERVICE WILL IMPLEMENT SPECIFIC PRODUCTIVITY SAVINGS DERIVED FROM STREAMLINED PORT AND DISTRICT OPERATIONS. CUSTOMS IS PROPOSING TO GO TO SINGLE SHIFTS AT AIRPORTS, CONSOLIDATE APPRAISEMENT CENTERS, REDUCE HOURS OF SERVICE AT PORTS DURING NON-PEAK TIMES, AND REDESIGNATE DISTRICTS. CUSTOMS PROCESSING AND ENFORCEMENT PROGRAMS WILL BE STRUCTURED AROUND THE CONCEPT OF A FULLY OPERATIONAL REDESIGNATED DISTRICT, STAFFED BY A FULL COMPLEMENT OF INSPECTORS, IMPORT SPECIALISTS AND OTHER ENFORCEMENT AGENTS. ENTRIES WILL CONTINUE TO BE FILED AS PREVIOUSLY, BUT THE ACTUAL PROCESSING WILL BE AT THE APPROPRIATE DISTRICT OFFICE.

REPORT ON CUSTOMS ENFORCEMENT AND OPERATIONAL PROGRAMS

INSPECTION AND CONTROL

THE CUSTOMS INSPECTION AND CONTROL PROGRAM PROCESSES PERSONS AND CARGO, AND CLEARS CARRIERS, FOR BOTH REVENUE AND ENFORCEMENT

PURPOSES. CUSTOMS EFFORTS TO IMPROVE ENFORCEMENT OF PERTINENT LAWS AND REGULATIONS AND EXPEDITE PROCESSING OF PERSONS AND GOODS WILL CONTINUE IN FY 1987. OUR OBJECTIVE, DESPITE RESOURCE CONSTRAINTS, IS TO ACHIEVE A BALANCE OF ECONOMICAL PROCESSING WHILE STILL MAINTAINING FULL SERVICE.

CUSTOMS WILL CONTINUE TO MEET THE CHALLENGE OF A GROWING WORKLOAD WHILE IMPROVING OVERALL EFFECTIVENESS THROUGH THE EXPANDED UTILIZATION OF AUTOMATED SYSTEMS, SELECTIVITY SYSTEMS AND OTHER INNOVATIVE TECHNIQUES. INCREASINGLY SELECTIVE AND AUTOMATED INSPECTIONAL TECHNIQUES WILL ENABLE CUSTOMS INSPECTORS TO CONCENTRATE THEIR EFFORTS ON THE "HIGH-RISK" PASSENGERS AND CARGO WHILE ALLOWING THE PREDOMINANTLY LAW-ABIDING TRANSACTIONS TO RECEIVE MINIMAL ATTENTION. WE WILL CONTINUE TO STREAMLINE CARGO PROCESSING THROUGH THE USE OF AUTOMATED TECHNOLOGY THAT WILL IMPROVE OUR ABILITY TO FACILITATE THE ENTRY OF MERCHANDISE WITHOUT WEAKENING OUR ENFORCEMENT POSTURE. OUR ENFORCEMENT EFFORTS WILL BE ENHANCED THROUGH THE USE OF FULLY IMPLEMENTED SELECTIVITY SYSTEMS. OUR SPECIAL TEAMS OF INSPECTORS, EQUIPPED WITH DETECTOR DOGS AND THE BEST POSSIBLE INTELLIGENCE WE CAN PROVIDE, WILL CONTINUE TO CONCENTRATE ON HIGH-RISK CARGO. THESE TEAMS HAVE ALREADY ESTABLISHED SIGNIFICANT COST-BENEFIT RATIOS WITH NOTEWORTHY NARCOTICS SEIZURES FROM CARGO AND BAGGAGE.

PASSENGER PROCESSING

AS IN PREVIOUS YEARS, CUSTOMS PROCESSED APPROXIMATELY 290 MILLION PERSONS ENTERING THE UNITED STATES, OF WHICH ALMOST 32 MILLION WERE AIR PASSENGERS. ALTHOUGH AIR PASSENGERS CONSTITUTE APPROXIMATELY 11 PERCENT OF THE TOTAL NUMBER OF PERSONS ENTERING THE COUNTRY, THEY REQUIRE A DISPROPORTIONATE SHARE OF CUSTOMS RESOURCES DUE TO THE LIMITED FACILITIES AVAILABLE, AIRLINE PRESSURE FOR CUSTOMS PROCESSING AT SPECIFIC TERMINALS, AND THE SUBSTANTIAL CROWDING DURING PROCESSING. THE PROBLEM IS INTENSIFIED BECAUSE FLIGHT ARRIVALS AT AIRPORTS ARE CONCENTRATED WITHIN CERTAIN TIME PERIODS AND THE EXPANSION OF FACILITIES TO MEET WORKLOAD DEMANDS IS MINIMAL. HOWEVER, CUSTOMS HAS DEVELOPED AND IMPLEMENTED NEW HIGHER SPEED PROCESSING SYSTEMS TAILORED TO ACCOMMODATE THE PHYSICAL CONFIGURATION AND THREAT LEVEL OF EACH AIRPORT. THESE PROCESSING SYSTEMS ALLOW THE RAPID PROCESSING OF LAW-ABIDING TRAVELERS AND THE MORE EFFICIENT DETECTION OF SUSPECTED VIOLATORS.

ONE OF OUR MAJOR INITIATIVES FOR FY 1987 WILL BE REGULATORY CHANGES TO PRIVATE AIRCRAFT REPORTING PROCEDURES. UNDER THE PROPOSED RULEMAKING, REPORTING REQUIREMENTS FOR PRIVATE AIRCRAFT CONSIDERED A HIGH-RISK WILL BE MADE MORE STRINGENT, AND DETAILED JUSTIFICATIONS WILL BE REQUIRED FOR OVERFLIGHT EXEMPTIONS. IN ADDITION, MORE STRINGENT REPORTING REQUIREMENTS ARE BEING CONSIDERED FOR SMALL BOATS.

CARGO PROCESSING

CUSTOMS IS CONTINUING TO STREAMLINE ITS EFFORTS IN THE CARGO PROCESSING AREA. THESE EFFORTS ARE AIMED AT FACILITATING THE FLOW OF LEGITIMATE CARGO THROUGH OUR AIR AND SEA PORTS WHILE FOCUSING EMPHASIS ON SUSPECT SHIPMENTS. IN ORDER TO SPEED THE FLOW OF MERCHANDISE, WE ARE EXPANDING EXISTING CARGO SELECTIVITY AND ENHANCING OUR AUTOMATED CARGO PROCESSING SYSTEMS. THE MOST SIGNIFICANT INNOVATION HAS BEEN THE IMPLEMENTATION OF ACS CARGO SELECTIVITY. IT IS NOW IN OPERATION AT 45 MAJOR PORTS, AND ADDITIONAL SITES WILL BE IMPLEMENTED IN FY 1987. THE ENTIRE PROCESSING AND INSPECTION OPERATION IS DIRECTED BY A CENTRAL-SITE COMPUTER.

CONTRABAND ENFORCEMENT TEAMS

CONTRABAND ENFORCEMENT TEAMS (CET) ARE REINFORCING TRADITIONAL INSPECTIONAL OPERATIONS. THESE TEAMS GATHER AND DISSEMINATE INTELLIGENCE, PERFORM INPUT DOCUMENT REVIEW, AND ANALYZE AND SEARCH SUSPECT CARGO. WHENEVER VIOLATIONS ARE DETECTED, THE MERCHANDISE, DRUGS, CONTRABAND, AND ITEMS IN VIOLATION OF CURRENCY REPORTING AND EXPORT LAWS ARE SEIZED. CET CAPABILITIES HAVE BEEN BOLSTERED BY COMBINING THEIR SEARCH EFFORTS FOR DRUGS IN CARGO WITH THOSE OF THE CANINE TEAMS. AS A RESULT OF IMPROVED INTELLIGENCE GATHERING AND DISSEMINATION, CET TEAMS ARE NOW CAPABLE OF MORE SPECIFIC TARGETING OF POTENTIAL

ILLEGAL ACTIVITIES, WHICH WE BELIEVE WILL RESULT IN MORE SIGNIFICANT SEIZURES. IN FY 1985, CET TEAMS SEIZED OVER 11,000 POUNDS OF COCAINE.

TARIFF AND TRADE PROGRAM

THE TARIFF AND TRADE PROGRAM IS RESPONSIBLE FOR APPRAISEMENT, CLASSIFICATION, DUTY ASSESSMENT AND COLLECTION ON ENTRIES OF IMPORTED MERCHANDISE, AS MANDATED IN THE TARIFF ACT OF 1930. RELATED AND EQUALLY IMPORTANT FUNCTIONS INCLUDE VERIFICATION OF IMPORT STATISTICS; ADMINISTERING NATIONAL TRADE POLICY BY MONITORING QUOTAS, STEEL IMPORT RESTRICTIONS, AND VARIOUS TRADE AGREEMENTS; AND, ENFORCEMENT OF LAWS AND REGULATIONS FOR OVER 40 OTHER FEDERAL AGENCIES.

IMPROVEMENTS IN THE COMPLETE RANGE OF TARIFF AND TRADE OPERATIONS ARE CONTINUING AND AN INDEPTH REVIEW OF THE MERCHANDISE PROCESSING SYSTEM IS UNDERWAY. OUR GOAL IS TO REDUCE THE BURDEN ON THE IMPORTER, ESPECIALLY THE COSTS OF DOING BUSINESS WITH CUSTOMS, WHILE INSURING THAT CUSTOMS MAINTAINS REQUIRED SERVICES EVEN WITH INCREASED MERCHANDISE IMPORTS. I AM PLEASED TO REPORT THAT OUR DEVELOPMENT PROJECTS ARE NOW OPERATIONAL. A BRIEF DESCRIPTION OF THESE INNOVATIONS IS INCLUDED TO PROVIDE YOU WITH SOME INSIGHT INTO THE NEW BUSINESS METHODS CUSTOMS HAS IMPLEMENTED.

AUTOMATED COMMERCIAL SYSTEM

ACS IS NOW PROCESSING MERCHANDISE ENTRIES, REVENUE COLLECTIONS, ENTRY LIQUIDATIONS, AND AN INCREASING NUMBER OF BROKER TRANSACTIONS. ON THE COMMERCIAL SIDE, ACS IS SELECTIVELY DIRECTING INSPECTORS TO MERCHANDISE REQUIRING EXAMINATION AND IMPORT SPECIALISTS TO CLASSIFICATION OR VALUE CHANGES. AS FOREIGN TRADE RISES, PROPER INSPECTION, EXAMINATION, VALUATION, AND CLASSIFICATION ARE NEEDED TO ENSURE THAT ALL DUTIES ARE COLLECTED.

AUTOMATED INTERFACE WITH BROKER, IMPORTER AND PORT AUTHORITY COMPUTERS IS A KEY FEATURE OF THE SYSTEM. CURRENTLY, TWENTY PERCENT OF THE ENTRY SUMMARIES PRESENTED TO CUSTOMS ARE PREPARED VIA THIS INTERFACE AND THAT NUMBER IS EXPECTED TO GROW BY 1987. CUSTOMS VIEWS THIS AS A UNIQUE OPPORTUNITY FOR BOTH THE TRADE COMMUNITY AND CUSTOMS TO WORK TOGETHER.

SELECTIVITY CRITERIA, WHICH ALSO IS IMPORTANT FOR BOTH CARGO EXAMINATION AND IMPORT SPECIALIST REVIEW, WILL BE MAINTAINED IN A UNIFIED DATA BASE. THE SYSTEM WILL BE CAPABLE OF IDENTIFYING THE TYPES OF REVIEW REQUIRED BY THE IMPORT SPECIALIST. AS IS COMMON IN THIS TYPE OF PROCESSING, RANDOM SAMPLING WILL MAINTAIN SYSTEM INTEGRITY.

TARIFF AND TRADE PROGRAM PARTICIPATION IN CUSTOMS OVERALL ENFORCEMENT EFFORT INCLUDES THE EXPANSION OF IMPORT SPECIALISTS' ROLE IN FRAUD TEAMS, SPECIAL ANALYTICAL TEAMS, TARGETING SPECIFIC COMMODITIES AND VIOLATORS, AND IN ASSESSMENT OF PENALTY CASES.

AIR PROGRAM

A PRIMARY CONCERN OF THE CUSTOMS SERVICE AND THE TREASURY DEPARTMENT HAS BEEN THE EFFECTIVENESS OF THE AIR INTERDICTION PROGRAM AS A DETERRENT AGAINST THE SMUGGLING OF NARCOTICS AND CONTRABAND BY PRIVATE AIRCRAFT, A THREAT THAT HAS DRAMATICALLY INCREASED OVER THE PAST SEVERAL YEARS. IN FY 1985, THE CUSTOMS AIR PROGRAM SEIZED 15,539 POUNDS OF COCAINE, A 64 PERCENT INCREASE OVER FY 1984. THE AMOUNT OF COCAINE SEIZED BY CUSTOMS THAT WAS SMUGGLED INTO THE COUNTRY BY PRIVATE AIRCRAFT INCREASED FROM 20 PERCENT IN FY 1984 TO 31 PERCENT IN FY 1985.

IN AN EFFORT TO MOST EFFECTIVELY RESPOND TO THIS SERIOUS PROBLEM, CUSTOMS AIR OPERATIONS HAS ADOPTED A STRATEGY OF CONCENTRATING AIR PERSONNEL AND EQUIPMENT IN HIGH-THREAT AREAS AND USING THEM IN CONFORMANCE WITH THE DETECTION, INTERCEPTION

AND TRACKING METHODS DEVELOPED SPECIFICALLY FOR THE INTERDICTION OPERATIONS CONFRONTING CUSTOMS AIR UNITS. DETECTION SYSTEMS IDENTIFY SUSPECT AIRCRAFT AND DIRECT APPREHENSION HELICOPTERS AND GROUND SUPPORT UNITS TO THE PRECISE LOCATION TO CAPTURE THE SMUGGLERS.

IN FY 1986, CUSTOMS IS REQUESTING $52,500,000 FOR AIR PROGRAM OPERATIONS AND MAINTENANCE, WHICH INCLUDES THE GRAMM-RUDMAN REDUCTION AND A PROPOSED RESCISSION. THE FY 1987 BUDGET TOTAL OF $54,700,000 INCLUDES ONLY SUFFICIENT ADDITIONAL FUNDS FOR PROJECTED COST INCREASES. IN BOTH YEARS THE PROPOSED BUDGET LEVELS WILL SUPPORT CONTINUED FULL OPERATIONS OF ALL CUSTOMS AIR UNITS CURRENTLY AVAILABLE.

IN CONTRAST TO FY 1985, FOUR P-3A DETECTION AIRCRAFT WILL BE OPERATIONAL THIS YEAR; THEY ARE SCHEDULED TO OPERATE AN AVERAGE OF 100 HOURS PER MONTH. IN SUPPORT OF THE ANTICIPATED INCREASE IN DETECTED SMUGGLER AIRCRAFT, THE PROGRAM WILL BE OPERATING EIGHT NEW HIGH ENDURANCE TRACKER AIRCRAFT. THE FIRST OF THESE AIRCRAFT IS EXPECTED IN MARCH, 1986, WITH THE REMAINDER BECOMING AVAILABLE BY JULY, 1986.

SUFFICIENT FUNDS ALSO ARE AVAILABLE DURING THESE YEARS FOR TWO SIGNIFICANT PROGRAM ENHANCEMENTS: FOR THE PREPARATIONS NECESSARY TO BEGIN THE ESTABLISHMENT OF TWO COMMAND, CONTROL, COMMUNCIATIONS, AND INTELLIGENCE CENTERS (C-3I) INCLUDING FACILITIES DESIGN, SITE SELECTION, AND PURCHASE OF CORE EQUIPMENT; AND, THE MODIFICATION OF FOUR C-12 MARINE SUPPORT AIRCRAFTS. CURRENTLY, WE ARE PROPOSING SOUTHERN CALIFORNIA AND FLORIDA AS THE TWO LOCATIONS FOR THESE CENTERS. ONCE IN FULL OPERATION, THESE CENTERS WILL, FOR THE FIRST TIME, PERMIT CUSTOMS TO PLACE RADAR SIGHTINGS, AND INTERCEPTIONS UNDER A SINGLE INTEGRATED COMMAND SYSTEM. WE BELIEVE THAT THIS MAJOR ENHANCEMENT WILL IMPROVE OUR OVERALL INTERCEPTION RATE. FINALLY, THE FOUR OPERATING C-12'S MODIFIED WITH AN ADVANCED DOWN LOOKING RADAR, SPECIALLY DESIGNED FOR OVER WATER DETECTION, WILL FILL A CRITICAL GAP IN MARINE SURVEILLANCE OPERATIONS.

MARINE PROGRAM

IN CONJUNCTION WITH THE AIR PROGRAM, CUSTOMS MARINE PROGRAM PROTECTS THE SEA APPROACHES TO THE NATION'S BORDERS. CONFRONTED WITH SIMILAR GROWTH IN ITS SMUGGLING PROBLEM, BY THE END OF FY 1986, THE PROGRAM WILL HAVE 218 OPERATIONAL VESSELS, RANGING IN SIZE FROM 15 TO 55 FEET, STATIONED AT 55 LOCATIONS. ALSO, CUSTOMS NEWLY DEVELOPED OPERATIONAL APPROACH INCLUDES MARINE MODULES AND A SPECIAL BLUE LIGHTNING STRIKE FORCE, ALL OF WHICH

WILL BE OPERATING DURING FY 1986. THESE VESSELS ARE USED FOR SURVEILLANCES, WATERSIDE RAIDS, INTELLIGENCE GATHERING, AND INTERDICTION. TODAY'S INTERDICTION UNITS CONFRONT LARGE-SCALE SMUGGLERS USING "MOTHERSHIPS", STASHES ON OFF-SHORE ISLANDS AND "AIR DROPS". RECENT SEIZURES INDICATE THAT MAJOR SMUGGLING BY VESSEL IS STILL ACTIVE IN THE SOUTHEAST, PARTICULARLY FROM THE BAHAMAS IN FAST BOATS, THE GULF COAST AND IS INCREASING ALONG THE PACIFIC, MID-ATLANTIC AND NEW ENGLAND COASTAL AREAS.

TO COUNTER THE THREAT OF SMUGGLING BY PRIVATE AND FISHING VESSELS, CUSTOMS HAS ESTABLISHED THE BLUE LIGHTNING STRIKE FORCE. THE CONCEPT OF SUCH A FORCE WAS DEVELOPED FROM OPERATION BLUE LIGHTNING, INAUGURATED IN APRIL, 1985, AS PART OF AN NNBIS COORDINATED MULTIAGENCY FORCE FOR DISRUPTING THE FLOW OF DRUGS FROM THE BAHAMAS. BY PRESSURING THE SMUGGLERS TO DRASTICALLY CHANGE THEIR NORMAL TRAFFICKING PATTERNS, SIGNIFICANT AMOUNTS OF DRUGS WERE SEIZED. AS A RESULT OF OPERATION BLUE LIGHTNING, 36,000 POUNDS OF MARIJUANA, 5,500 POUNDS OF COCAINE, AND 26 VESSELS WERE SEIZED DURING A TWO WEEK OPERATION.

IN CONVERTING THE CONCEPT TO A PERMANENT OPERATIONAL APPROACH, CUSTOMS AND OTHER PARTICIPATING AGENCIES COORDINATE ACTIVITIES ON A 24-HOUR BASIS ALONG THE FLORIDA COAST. DURING THE FIRST 90-DAYS OF THE OPERATION THERE WERE 82 ARRESTS, AND THE SEIZURE OF 103,755 POUNDS OF MARIJUANA, 6,710 POUNDS OF COCAINE, 5 AIRCRAFT, AND 32 VESSELS. SINCE ITS ESTABLISHMENT AS

A PERMANENT FORCE, CUSTOMS IS STRENGTHENING ITS CAPABILITIES BY IMPLEMENTING AN OPERATIONS CENTER, THE JOINT MARINE INTERDICTION COMMAND CENTER (J-MICC), WHICH WILL INTEGRATE DETECTIONS AND OPERATIONAL UNITS. THE CENTER WILL FUNCTION UNDER MULTIAGENCY COMMAND AND CONTROL AND WILL COORDINATE OTHER FEDERAL AND PARTICIPATING STATE AND LOCAL MARINE UNITS ALONG THE FLORIDA COAST AS FAR NORTH AS FORT PIERCE ON THE EAST COAST.

INVESTIGATIONS

CUSTOMS INVESTIGATIVE PROGRAM IS RESPONSIBLE FOR VIOLATIONS OF CUSTOMS AND RELATED LAWS, WHICH INCLUDES A BROAD MANDATE TO CONDUCT CURRENCY, FRAUD, EXPORT AND INTERNATIONAL ENFORCEMENT CASES. IN EACH PROGRAM, TARGETING DEPENDS HEAVILY UPON THE DEVELOPMENT AND COLLECTION OF INTELLIGENCE. THE MAIN PROGRAMS ARE DESCRIBED BELOW.

ORGANIZED CRIME DRUG ENFORCEMENT (OCDE)

CUSTOMS PARTICIPATES WITH OTHER FEDERAL LAW ENFORCEMENT AGENCIES IN 13 CITY TASK FORCES. THE FINANCIAL INVESTIGATIONS FOCUS ON SMUGGLING GROUPS RESPONSIBLE FOR THE LAUNDERING OF LARGE SUMS OF MONEY. WE BELIEVE THIS PROGRAM IS A MAJOR STEP IN ASSURING THE SUCCESS OF THE PRESIDENT'S GOAL OF DISRUPTING ORGANIZED CRIME THROUGHOUT THE COUNTRY.

IN FY 1987, CUSTOMS PLANS TO CONTINUE WITH CURRENT COMMITMENTS OF RESOURCES TO THE PRESIDENTIAL ORGANIZED CRIME DRUG ENFORCEMENT TASK FORCES. THESE SPECIALIZED INVESTIGATIVE TASK FORCES FOCUS ON LARGE-SCALE DRUG SMUGGLING ORGANIZATIONS, APPROACH EACH TARGET AND SIMULTANEOUSLY EXPLOIT THE FINANCIAL, INTERNAL CONSPIRACY AND INTERDICTION/SMUGGLING ELEMENTS OF EACH CRIMINAL ORGANIZATION. TO DATE THEY HAVE ACHIEVED EXCELLENT RESULTS. IN FY 1985, CASES INVOLVING CUSTOMS PARTICIPATION RESULTED IN 909 INDICTMENTS, 547 ARRESTS; 405 CONVICTIONS; $34 MILLION IN U.S. CURRENCY AND PROPERTY SEIZURES; SEIZURES OF 218 POUNDS OF COCAINE AND 53 POUNDS OF HEROIN;AND $8 MILLION IN FINES COLLECTED

FRAUD PROGRAM

FOR SEVERAL YEARS, CUSTOMS HAS EMPHASIZED ITS FRAUD EFFORTS AGAINST ILLEGAL UNAUTHORIZED STEEL, TEXTILE, AND WEARING APPAREL IMPORTS, AS WELL AS DRAWBACK AND TRADEMARK AND COPYRIGHT VIOLATIONS. THESE EFFORTS HAVE PRODUCED GOOD RESULTS IN TERMS OF PENALTY RECOVERIES AND PROSECUTIONS OF CRIMINALS. ALSO, DOMESTIC INDUSTRY AND JOBS WERE PROTECTED FROM UNFAIR AND ILLEGAL INTERNATIONAL TRADE PRACTICES. OPERATION TRIPWIRE, WHICH IS THE DESIGNATION OF OUR SPECIAL EMPHASIS AGAINST FRAUDULENT IMPORTS, ACCOUNTED FOR 54 ARRESTS, 230 INDICTMENTS, AND SEIZURES WITH A TOTAL VALUE OF OVER $67 MILLION IN FY 1985.

AS REPORTED FOR THE PAST SEVERAL YEARS, CUSTOMS IS LOOKING VERY CAREFULLY AT ALL STEEL AND TEXTILE IMPORTS. TASK FORCE OPERATIONS IN FY 1986 WILL CONTINUE TO DIRECT THEIR EFFORTS AGAINST ILLEGAL MERCHANDISE BEFORE IT ENTERS UNITED STATES COMMERCE AND TO INVESTIGATE CASES RESULTING FROM INTENSIFIED INSPECTIONS. THE TASK FORCES WILL FOCUS ON HIGH-RISK IMPORTATIONS AT MAJOR PORTS TO ASSURE CONTINUED HIGH QUALITY ARRESTS, MAJOR REVENUE RECOVERIES AND TO PRESENT A VISIBLE DETERRENT.

A SIGNIFICANT IMPROVEMENT IN CUSTOMS EFFECTIVENESS WILL OCCUR WHEN THE EXPANDED CAPABILITY TO TARGET VIOLATORS, BY CORRELATING COMMERCIAL, FINANCIAL AND ECONOMIC DATA USING ADP SYSTEMS, WITHIN SELECTED "HIGH-RISK" AREAS, IS FULLY IMPLEMENTED. TO THIS END, WE ARE USING INTEGRATED FUNCTIONAL TEAMS, IN HIGH-ACTIVITY AREAS, TO OBTAIN INTELLIGENCE AND ENFORCEMENT EFFECTIVENESS.

FINANCIAL LAW ENFORCEMENT PROGRAM

OUR INVESTIGATIVE ATTACK ON CRIMINAL ORGANIZATIONS UNDER PROVISIONS OF THE BANK SECRECY ACT AND THROUGH THEIR FINANCIAL TRANSACTIONS HAS PAID EXCELLENT DIVIDENDS IN TERMS OF ITS IMPACT ON THE LARGEST SMUGGLING GROUPS OPERATING IN THIS COUNTRY. MULTI-AGENCY INVESTIGATIVE AND PROSECUTORIAL TEAMS, OPERATING

UNDER THE LEADERSHIP OF THE LOCAL U.S. ATTORNEY, ARE CURRENTLY ACTIVE IN CITIES WITH LARGE-SCALE CURRENCY MOVEMENTS AND THOSE CITIES IN THE FOREFRONT OF TOP-LEVEL DRUG TRAFFICKING AND MONEY LAUNDERING.

OUR FINANCIAL ANALYSIS DIVISION (FAD) IS THE CLEARING HOUSE FOR ALL FINANCIAL DATA. THE CENTER ANALYZES THE FINANCIAL CHARACTERISTICS OF CRIMINAL MARKETS AND ASSISTS IN DEVELOPING USEABLE STRATEGIES FOR EXPLOITING CRIMINAL FINANCIAL BUSINESS PRACTICES. NEEDLESS TO SAY, THE CENTER IS ALSO THE SOURCE OF INTELLIGENCE, BOTH DOMESTIC AND FOREIGN, DEVELOPED AND ADAPTED FOR THE INVESTIGATIVE FIELD UNITS. DURING FY 1985, FAD IDENTIFIED INDIVIDUALS AND COMPANIES SUSPECTED OF LAUNDERING OVER A BILLION DOLLARS.

OPERATION EXODUS

OPERATION EXODUS COMBATS ILLEGAL EXPORTS OF EQUIPMENT, COMPUTER PARTS, CLASSIFIED DEFENSE ITEMS, AND LASERS. IN ADDITION, AND EQUALLY SERIOUS, IS THE ILLEGAL TRANSFER OF TECHNICAL DATA ON RESEARCH, DEVELOPMENT, AND MANUFACTURING. OUR JOB IS NOT ONLY TO DETECT THESE SHIPMENTS, BUT ALSO TO PUNISH THE INDIVIDUAL VIOLATORS. ULTIMATELY, IF WE ARE TO BE SUCCESSFUL, WE MUST DISCOURAGE THE ACTIVITIES OF THE MANUFACTURERS, OVERSEAS INTERMEDIARIES, AND FOREIGN OPERATIVES. I AM PLEASED TO REPORT THAT WE ARE RECEIVING THE STRONG SUPPORT OF AMERICAN INDUSTRY IN THIS EFFORT.

CUSTOMS ACTIVITIES IN THIS PROGRAM IN FY 1987, WILL FOCUS ON TARGETING ILLEGAL EXPORTS WHILE MINIMIZING THE IMPACT ON LEGITIMATE TRADE. EXPANDED USE OF SPECIFICALLY TARGETED ENFORCEMENT OPERATIONS CONCENTRATING ON HIGHLY SELECTIVE CRITICAL EXPORTS, INCREASED FOREIGN INFORMATION, AND ADP GENERATED ANALYTICAL INTELLIGENCE ARE CRITICAL ELEMENTS FOR IMPROVING OVERALL EFFECTIVENESS. IN FY 1987, A WIDE RANGE OF ENFORCEMENT INITIATIVES WILL BE IMPLEMENTED: ADDITIONAL UNDERCOVER OPERATIONS; AN EXPANDED MUNITIONS CONTROL PROGRAM; ENHANCED LIAISON WITH THE INTELLIGENCE COMMUNITY; INCREASED FOREIGN COOPERATION; AND, SUPPORT AND ASSISTANCE TO FOREIGN GOVERNMENTS IN THEIR OWN CONDUCT OF OPERATIONS DIRECTED AGAINST EXODUS VIOLATIONS.

PORNOGRAPHY

THE PAST DECADE HAS SEEN SUBSTANTIAL GROWTH IN PORNOGRAPHY TRAFFICKING. IT IS A PROBLEM OF PRIME CONCERN AND CUSTOMS HAS STEPPED UP THE LEVEL OF ENFORCEMENT IN THIS AREA. WE ARE AGGRESSIVELY INVESTIGATING PORNOGRAPHY CASES, ESPECIALLY WHERE LARGE VOLUME DEALERS, ORGANIZED CRIME, OR CHILD PORNOGRAPHY ARE INVOLVED. SINCE PORNOGRAPHY IS SMUGGLED INTO THE UNITED STATES CHIEFLY THROUGH THE MAILS, WE HAVE A VITAL ROLE IN CURBING THE IMPORTATION OF PORNOGRAPHIC MATERIALS AND SEEKING PROSECUTION OF VIOLATORS OF CUSTOMS AND RELATED LAWS. TO ACCOMPLISH THIS, CUSTOMS, TOGETHER WITH OTHER FEDERAL, STATE, LOCAL AND FOREIGN

AUTHORITIES, IS WORKING TO STEM THE FLOW OF IMPORTATION AT THE SOURCE COUNTRIES. AS A RESULT OF CUSTOMS' INVESTIGATIVE EFFORTS SEVERAL CHILD PORNOGRAPHERS HAVE BEEN IDENTIFIED AND ARRESTED.

CONCLUSION

IN CLOSING, WE WISH TO REITERATE THAT OUR BASIC MISSION IS THE COLLECTION OF REVENUE AND ENFORCEMENT OF CUSTOMS AND RELATED LAWS. OUR MISSION IS IMPORTANT AND OPERATES IN A DYNAMIC ENVIRONMENT, SIGNIFICANT ELEMENTS OF WHICH INCLUDE THE TRAVELING PUBLIC, THE TRADE COMMUNITY, AMERICAN BUSINESS AND THE GENERAL PUBLIC. CUSTOMS, IN FULFILLING ITS RESPONSIBILITIES, MUST INCREASINGLY EMPLOY SOPHISTICATED OPERATIONAL AND ENFORCEMENT TECHNIQUES AND A WIDE VARIETY OF SKILLS AND DISCIPLINES.

IN FY 1986, DESPITE THE IDENTIFIED REDUCTIONS, CUSTOMS WILL CONTINUE IMPROVING COMMERCIAL MERCHANDISE PROCESSING AS WELL AS UPGRADING ITS VITAL TECS SYSTEM. WHEREVER POSSIBLE, SELECTIVE APPROACHES SUPPORTED BY AUTOMATION AND REDUCED PROCEDURAL REQUIREMENTS WILL BE IMPLEMENTED. IN EACH CASE, WE ARE ATTEMPTING TO SPEED UP THE PROCESSING TIMES. AS DESCRIBED EARLIER, WE WILL BE WORKING CLOSELY WITH THE IMPORTING COMMUNITY TO INSURE THAT THE PLANNED OPERATING SYSTEM MEETS THEIR NEEDS AS WELL AS OUR OWN.

TODAY, I HAVE OUTLINED A BLUEPRINT OF FUTURE DIRECTIONS AND OF IMPROVEMENTS RECENTLY IMPLEMENTED. IN FY 1987, WE SHOULD BEGIN TO SEE THE RESULTS OF THESE EFFORTS AS MANY OF THE INNOVATIONS BECOME FULLY OPERATIONAL.

THIS CONCLUDES MY INTRODUCTORY STATEMENT. WE ARE AVAILABLE TO DISCUSS THE DETAILS OF THE REQUEST AND ANSWER YOUR QUESTIONSAND THOSE OF THE SUBCOMMITTEE MEMBERS.

Mr. ROYBAL. Thank you Mr. von Raab.

Now, for the first go around, we will try to operate under the five-minute rule. And then for the second, third, and fourth we will be on the ten-minute rule. We do that because we realize this is a complicated budget and we would like some explanation. I also realize that it is not easy to explain, but let us try.

BUDGET PROPOSAL

Now, from what I see, your budget estimate for 1987 is $6,831,000 more than 1986; is that correct?

Mr. VON RAAB. Than the proposed '86; is that right?

Ms. CURTIS. Our Salaries and Expenses budget is $11,000,000 more than our proposed '86 budget.

Mr. VON RAAB. We are proposing an '86 budget and an '87 budget here. We are proposing changes to the continuing resolution. So that the '87 budget is referenced in most cases in the proposed '86 budget.

Mr. ROYBAL. That makes it complicated then?

Mr. VON RAAB. That is right.

Mr. ROYBAL. So you are proposing changes to the 1986 budget, and then also making I suppose some additions to the 1987 budget?

Mr. VON RAAB. That is correct.

Mr. ROYBAL. Can you tell us what those additions are?

Mr. VON RAAB. We are requesting increases of $3 million to improve and enhance our automated commercial system, and $8 million to improve and enhance our Treasury enforcement communications system. That is in the portion of the budget called Salaries and Expenses.

There is a second budget with which we deal called Operation and Maintenance. This is more easily described as the Air Program budget. The Air Program budget includes an increase of $2,200,000 to maintain current levels.

Those are the only increases in our budget over the proposed '86 budget.

PERSONNEL REDUCTION

Mr. ROYBAL. The decreases in 1986 and 1987 will actually translate to a reduction in personnel of approximately 1500 people; is that correct?

Mr. VON RAAB. Over the two years, that is pretty close, yes.

Mr. ROYBAL. So you are reducing personnel by 1500 at least, a little bit more than 1500, and at the same time you are increasing your budget by 6 million, $6.8 million?

Mr. VON RAAB. In absolute numbers it is actually $11 million. It goes from a proposed FY 1986 budget of $682 million to a proposed FY 1987 budget of $693 million. So I cannot find the $6 million figure. I come out with $11 million in the Salaries and Expense budget and $2,200,000 in the Air Program budget.

Mr. ROYBAL. Those figures seem to be correct.

Mr. VON RAAB. Fine.

Mr. ROYBAL. We will stipulate to the fact that they are, but they still translate into a reduction of over 1500 people.

Mr. VON RAAB. The proposed reduction is 777 average positions in 1986 and 770 average positions in 1987.

Mr. ROYBAL. All right.

Mr. VON RAAB. If you will permit me, in some cases they are prospective reductions. In other words, the 777 people would not necessarily be on board, but could have been hired under the continuing resolution.

Mr. ROYBAL. In previous years you also had authorization for the hiring of people who were not in fact hired?

Mr. VON RAAB. That is a very, very difficult issue. The Customs Service has gone through several years of difficult budget circumstances, in that we have been authorized certain levels of personnel, but at most times have not had the money to actually hire up to those levels of personnel.

Although we are authorized to hire certain number of people, due to budget reductions or because of the lateness of supplementals to our budget, we have been unable administratively to hire up to the levels that have been stated in the budgets.

Mr. ROYBAL. I have one last question, and then I will yield to the gentleman from New Mexico, Mr. Skeen. That is with regard to your personnel reduction, which will be 1547 for 1986 and 1987. The truth of the matter is that you have authorized to have in place now 14,041 employees. I heard somewhere possibly by rumor, that eventually you would have in Customs 5,000 employees and not 14,000.

Mr. VON RAAB. I have never heard that.

Mr. ROYBAL. Where did that come from?

Mr. VON RAAB. A newspaper that was trying to come up with a story. That just does not make any sense.

Mr. SKEEN. Some unreliable source.

Mr. VON RAAB. Very unreliable source.

Mr. ROYBAL. I will let you know about the reliability of that particular statement after the hearing. But that statement was made.

Mr. VON RAAB. I would point out that even now we only have approximately 12 and a half thousand Customs officers in the Customs Service.

Mr. ROYBAL. Mr. Skeen.

Mr. SKEEN. Thank you, Mr. Chairman.

Mr. von Raab, it is good to see you again. And I am concerned too about the personnel reductions because I think in last year's budget we had a lot of conversations about increasing personnel. And I see that some of the proposed decrease in personnel involves the area of inspectors, import specialists, probably your two largest reduction areas. Is this not correct?

Mr. VON RAAB. Are you talking about 1986 or 1987?

Mr. SKEEN. I believe this is 1987.

Mr. VON RAAB. That is correct.

Mr. SKEEN. Here is where we have the problem. Are these positions filled now, or are they authorized?

Mr. VON RAAB. Some of the positions that are reduced in 1987 are filled now.

Mr. SKEEN. Are actually filled now?

Mr. VON RAAB. That is correct. And those would be reduced by attrition. We do not plan to fire anybody under this plan. But I

would have to say that some of the positions that are scheduled for reduction in 1987 are filled now.

Mr. SKEEN. You have traditionally always run with your authorized positions, have always run considerably in excess of those that you have filled.

Mr. VON RAAB. Actual people on board, that is correct.

Mr. SKEEN. Is that what causes the problem when we start talking about positions?

Mr. VON RAAB. That is one of the problems. As I indicated earlier, due to attrition and time it takes to fill vacancies, we never have a full complement on board. Therefore, it is not necessary to have the full amount of money.

Second, because of anticipated budget reductions, we have implemented freezes that reduced our complement of Customs officers. Budget issues have not been resolved until late into the actual fiscal years, thereby preventing us from taking action since, as responsible managers, we could not hire against a budget that did not exist.

Then at times when we receive a supplemental appropriation, it comes late in the year. You cannot go out and hire 500 people in two months. That is typically what accounts for the fact that our personnel has been below our ceiling. For example, as of February 1st, 12,490 individuals occupied our full-time equivalent positions.

DRUG INTERDICTION

Mr. SKEEN. This problem of drug interdiction and the control of drug smuggling has been one that both the Customs Service and this Committee has had a strong interest in. Along these lines the President often justifies the increases in defense spending should be predicated on how tough an enemy you are facing and what their buildup is involved or how much is involved in that buildup. I think we have conceded that we have a tough time trying to stay up with the problem of drug interdiction.

That is why I think the Committee has always had an interest in increasing Customs budgets to meet this threat. Of course, it is probably the toughest one that we have directly in the United States today.

DEPARTMENTAL REQUEST

And how much did the Customs Service request of the Treasury Department in fiscal year '86 salaries and expenses, and how many average positions would this cover?

Mr. VON RAAB. Our '87 request to OMB, Customs Service's '87 request totaled 825 million. And our departmental submission—what were you asking for, the departmental submission or OMB submission? I'm sorry.

Mr. SKEEN. Let us get with the departmental. And then you can give me OMB.

Mr. VON RAAB. $830 million, and 14,700 full-time equivalent positions for FY 1987.

Mr. SKEEN. What is OMB?

Mr. VON RAAB. The submission that went over to OMB, I believe was $753 million and 13,835 FTEs or full-time equivalent positions.

Mr. SKEEN. In effect what we are talking about is a reduction of 1,500?

Mr. VON RAAB. Over two years.

GRAMM-RUDMAN-HOLLINGS REDUCTION

That is correct. From present continuing resolution levels. Because the intervening event, of course, is the Gramm-Rudman cut. We have been advised by counsel that the Gramm-Rudman cut supersedes the continuing resolution. Therefore, we would take the position that we are not really at that level, we have already been reduced by 777 full-time equivalent positions.

I am not trying to be tricky on that. The continuing resolution would have put us at a level of reducing by 1500 over two years. But if we actually take the Gramm-Rudman, we are actually not reducing anything, because those personnel reductions of 1500 are attributable directly and entirely to the Gramm-Rudman legislation.

Mr. SKEEN. Well, I think what bothers us is trying to get some gauge on what effect this has——

Mr. VON RAAB. I understand. But I want you to understand that those personnel reductions come from Gramm-Rudman.

Mr. SKEEN. We understand that, and those of us sitting around this table are no better well apprised than those of you in the agency are.

But we are primarily concerned about how it affects your program. And one of my particular interests is in the drug interdiction program, what effect the personnel cuts are going to have on these various programs.

Mr. VON RAAB. Well, as I indicated, we have crafted our budget for '86 to avoid any effects on the drug interdiction programs. The reductions we have taken in no case reduces our marine program, our intelligence program, or our air interdiction program.

For example, inspectors, along the Southwest border, our primary line of defense for drug interdiction in that area, have not been decreased relative to the levels at which we were operating in June.

In FY 1987 we will take the same line. I cannot tell you at this time exactly how the reductions in Customs will be made. Our plans are to make them in such a way that the necessary inspectors are present at the high-risk crossings.

Mr. SKEEN. That is all for now, Mr. Chairman.

Mr. ROYBAL. Mr. Coleman.

Mr. COLEMAN. Thank you, Mr. Chairman.

First of all, Mr. Commissioner, I am not confused about these numbers. It is not 1500 people. It is 1,547 people. Is that not correct, Commissioner?

Mr. VON RAAB. Yes.

Mr. COLEMAN. That is the number.

Mr. VON RAAB. It is not 1547 people that are on the job today.

Mr. COLEMAN. Let us quit talking about on the one hand apples and on the other oranges. Let us all talk about the same baseline. Customs was sequestered by $30.8 million in salaries and expenses and $3.2 million in air operation, yet you request a rescission of an additional $4.1 million in salaries and expenses and $19 million for air operations, the Nation's air defense against narcotics smuggling in this country.

Then you have the nerve to tell the Committee, the Congress, and the American people that you are increasing your budget for FY '87. That is what your statement said. The Committee knows that that is not right. The American people know that is not right. It is not confusing.

If we gave you your '86 rescission, then the '87 budget looks like an increase of $11 million, does it not?

Mr. VON RAAB. We have already received our '86 rescission by virtue of Gramm-Rudman.

RESCISSION

Mr. COLEMAN. Let us talk about the rescission that the Administration is requesting. That is not Gramm-Rudman. I know what Gramm-Rudman did to you.

Mr. VON RAAB. The 777 reduction for 1986 is a direct. result of Gramm-Rudman.

Mr. COLEMAN. There is no additional request for any rescission?

Mr. VON RAAB. There is a $4 million rescission. But that is not personnel.

Mr. COLEMAN. And $19 million for air operations?

Mr. VON RAAB. That is correct. None of those are personnel cuts.

Mr. COLEMAN. I want to ask you about personnel requests. Gramm-Rudman forced Customs to cut $30.8 million. You cut 777 positions, or rather you are not going to necessarily hire all 777 positions; is that correct?

Mr. VON RAAB. That is right.

Mr. COLEMAN. And in the President's FY 1987 budget, I see that Customs has an assumed personnel cost in FY 1986 with an average of 14,041 positions that would cost $515,678,000 or only 71.9 percent of the $717 million appropriated for salaries and expenses. Now, that works out in other words to a 71.9 percent of that being positions, people.

Mr. VON RAAB. That is no doubt correct.

GRAMM-RUDMAN DECREASES

Mr. COLEMAN. Yet under Gramm-Rudman your agency took 100 percent, did it not, of the $30.8 million cut and took if from personnel; is that correct?

Mr. VON RAAB. For which year?

Mr. COLEMAN. FY 86.

Mr. VON RAAB. That is not correct. Reductions were also taken in other areas.

Mr. COLEMAN. We are going to talk about all of FY '86 now. I want to talk about what other agencies came before this Committee and told us.

Mr. VON RAAB. We have done other things. We have reduced our travel budget and relocation budget by millions of dollars.

Mr. COLEMAN. How many millions for '86?

Mr. VON RAAB. $2.8 million.

Mr. COLEMAN. So that leaves—$28 million.

Mr. VON RAAB. We have reduced our training budget by a half a million dollars. We have reduced——

Ms. GORDON. Training is 1.8 million.

Mr. VON RAAB. Sorry, I misread the line. We have reduced the purchases of information budget by half a million dollars and equipment purchases by $3.5 million. We will save $1.3 million by streamlining port operations. And we have reduced other miscellaneous items by approximately a million dollars.

Although we have taken the bulk of our reductions in personnel compensation and benefits, I want to make it clear for the record that we have also reduced other areas.

Mr. COLEMAN. How much was left in for personnel under the $30.8 million in funding cuts that you had to take?

Mr. VON RAAB. 20 million.

Mr. COLEMAN. $20 million. You maintain that that $20 million goes to the 777 positions that you are not going to hire? In other words, you can equate the $20 million to the 777?

Mr. VON RAAB. Yes.

Mr. COLEMAN. Let me ask you this question: the FY '86 continuing resolution, public law 99–190, contained a provision which states, "provided further that none of the funds made available by this act shall be available for administrative expense to reduce the personnel level of the Customs Service during fiscal year 1986 below the 14,041 full-time equivalent positions."

PERSONNEL FLOOR

It was my understanding, and that of other members of this Committee, that figure was a floor we were placing on the Customs Service for total personnel. Was that your understanding at the time?

Mr. VON RAAB. We believe, however, a strong argument can be made that the mandatory requirement of the Customs appropriations statute has been modified by the Gramm-Rudman-Hollings bill which necessitates major funding cuts this year.

Congress passed the appropriation statute based on a particular level of funding which was subsequently reduced by Gramm-Rudman. This reduction makes it difficult or impossible to comply with all of the requirements of the continuing resolution. It has been our position that Gramm-Rudman cancels the mandatory spending requirements of the appropriation statute that are inconsistent with deficit reduction.

Mr. COLEMAN. Even before that, in November of 1985, I understand that the Comptroller said in a memorandum I have seen that "an FTE floor has not been established for the Customs Service, rather language has been inserted that prevents the Commissioner from taking any administrative action such as a freeze to purposefully reduce FTE below 14,041. It appears that we still have the flexibility to reprogram funds for specific reasons such as a special

operation, which may result in less funds available for salaries and therefore fewer than 14,041 FTE."

Is that the position you are taking?

Mr. VON RAAB. I do not have that memorandum in front of me. I would be happy to look at it. All I can tell you is when the continuing resolution was passed and before Gramm-Rudman was passed, we were staffing up. We were prepared to spend the money that was provided in the continuing resolution. There was never any intention of not following the law that was passed under the continuing resolution. When Gramm-Rudman passed we had to change our position.

Mr. COLEMAN. Let us assume it is okay to take 777 because you have to, if the Committee wants to accept that as something that had to be done because of Gramm-Rudman cuts. Do you still feel that the FY '87 budget which we are here about today is on acceptable level for this Committee and for this country?

Mr. VON RAAB. We are faced with the same problem in 1987; we have to deal with Gramm-Rudman problem in '87 as well. We will do our our share to meet whatever levels are required to be met in '87.

Mr. COLEMAN. Let me understand something. When we talk about the FY '87 budget, are we not going to discuss the rescissions that this Administration is proposing. Are we going to talk about the rescissions that we just talked about, $19 million for air operations and $4.1 million?

Or are we going to try to relate that back to '86?

Mr. VON RAAB. I am prepared to discuss both '86 and '87 in whatever terms you like.

Mr. COLEMAN. Are you telling me that all the things that you said apply to the '87 budget which includes Gramm-Rudman and includes these rescissions that the Administration did not have to request?

Mr. VON RAAB. I am not saying the rescissions are part of the Gramm-Rudman.

Mr. COLEMAN. You said to the Committee we can do the job with this amount of money, this is a responsible proposal, responsible budget. Can you truly say for that 1987 when you take into effect the '86 rescissions that the President has sent?

Mr. VON RAAB. I have not, nor did I in my formal statement, suggest that either the '86 or '87 budget was an optimal level. I am saying that is the way we feel we can best array our resources against the moneys that are available in the austere budgetary climate imposed by Gramm-Rudman.

Mr. COLEMAN. Mr. Chairman, I would like to ask more questions. I know I've taken up my five minutes. I would like to ask further questions later.

Mr. ROYBAL. The Gentleman's time has expired.

Mr. Lowery.

Mr. LOWERY. I would yield to Mr. Wolf. He was here first.

Mr. WOLF. You go ahead.

Mr. LOWERY. Okay.

PERSONNEL IN SAN DIEGO

Mr. Commissioner, last year this Committee specifically appropriated funds to 20 Customs agents in San Diego, 15 full-time and an additional 10 part-time, to be used at the border. Can you tell us what happened to those slots that were appropriated?

Mr. VON RAAB. You are talking about in San Diego?

Mr. LOWERY. Yes.

Mr. VON RAAB. In June of 1985 we had 238 inspectors, 13 import specialists, and 59 other Customs employees in the San Diego district, for a total of 310 people. As of February 1986, we have 269 inspectors, 12 import specialists, 68 other, which in many cases are support personnel to inspectors or import specialists, for a total of 349 employees in San Diego.

Mr. LOWERY. Those are slots that are filled, occupied today, not just funded, but there are personnel on board today?

Ms. GORDON. Yes.

Mr. VON RAAB. Yes. It is 349 people in San Diego total.

Mr. LOWERY. Well, first I want to say I commend the Customs Service for their stepped-up responsibilities in the fight against drugs. I am amazed just this week Judge Koffman's organized crime task force made recommendations that we need to do far more in terms of our efforts on going after drug interdiction in the United States. That more resources are not committed by this Administration to the prime federal agency responsible for drug inerdiction, which is U.S. Customs Service, it is just beyond my comprehension.

As you are aware, there is increasing evidence, intelligence reports, and other sources, that Mexico is the number one country through which illegal drugs come to the United States, and that there is an increased flow in the Southwest. Obviously as undermanned as you are, it is causing severe problems at the Mexican border.

In fact, in recent days, just yesterday, there were two articles in the San Diego papers, and last week another, talking about the incredible delays at the San Ysidro border crossing. There is normally 20 minutes. Yesterday morning it was two hours, a two-hour delay! Of the 24 gates at the border, only seven were manned.

CUSTOMS/INS JOINT RESPONSIBILITY

Mr. VON RAAB. Would you like me to explain that?

Mr. LOWERY. I would indeed.

Mr. VON RAAB. Basically the Customs Service and Immigration and Naturalization Service are jointly responsible for staffing around the country in many places, not everywhere, but at the borders we are.

What has been happening is that the Immigration and Naturalization Service has been failing to meet its staffing requirements, thereby by pulling Customs officers off of other responsibilities including drug interdiction and cargo inspection, in order to man what are called the primary lanes.

What you saw last week and what you have seen in these articles is the result of the Customs Service finally saying to the Immi-

gration Service, we are tired of putting our inspectors on primary lanes to fill in for your lack of personnel.

Mr. LOWERY. What is the normal mix?

Mr. VON RAAB. Supposed to be 50/50.

Mr. LOWERY. How many gates were supposed to be open yesterday when only seven were open?

Mr. VON RAAB. Typically we've got around 12 that should be open.

Mr. LOWERY. And you had five and INS had two. We are short some five gates.

Mr. VON RAAB. Whatever shortages we have from the 12, that is right.

Mr. LOWERY. Typically in San Diego, you have a 50/50 mix?

Mr. VON RAAB. We should, although we have not had a 50/50 mix for a long time.

Mr. LOWERY. What do your counterparts over at the Justice Department say about that?

Mr. VON RAAB. I do not know if they understand what is going on in the field in the Immigration and Naturalization Service. I do not know the answer to that.

Mr. LOWERY. Are these informal agreements or formal agreements that you have?

Mr. VON RAAB. These are written agreements.

Mr. LOWERY. They have been in effect since when?

Mr. VON RAAB. Years.

Mr. LOWERY. You are telling me that Customs is meeting its responsibilities?

Mr. VON RAAB. That is correct. Customs has the resources to meet its responsibilities to maintain the 12 gates open.

Mr. LOWERY. I think maybe we need a conference with INS and the Customs Service to resolve this matter. I am sure it is impacting on other communities. San Diego, of course, is the busiest port of entry we have in the country for automobile crossings. And I suspect other parts of the country are likewise severely impacted.

What other suggestions do you have to resolve the problem?

Mr. VON RAAB. Just to close out that issue, as a result of some of the attention that has been brought to this problem in San Diego, I am informed by Gene Mach that the Immigration Service has now agreed to staff up to its responsibilities. I expect that the problem has been corrected. I am sorry that it happened.

Mr. LOWERY. That is a little inconsistent with what your chief Customs inspector said in San Diego. He said starting today that the number of gates would decrease.

Mr. VON RAAB. He may not be aware of the Immigration Service's agreement to staff up to the requirements.

Mr. MACH. He called me yesterday afternoon, called my staff.

Mr. LOWERY. Who called you?

Mr. MACH. Acting Associate Commissioner for Examination at Immigration.

Mr. VON RAAB. Immigration official.

Mr. LOWERY. And said?

Mr. MACH. Said they would get their staffing levels up.

Mr. LOWERY. Are you experiencing this problem elsewhere?

Mr. VON RAAB. Yes.

Mr. LOWERY. What are they giving by way of reason?

Mr. MACH. Alien processing, border crossing cards, type of activity that requires issuance of documents, those kinds of——

Mr. LOWERY. That is an important issue, but that issue is more important than the inspection we have for drug introduction we have at the Mexican border?

Mr. MACH. I do not necessarily agree with that.

Mr. LOWERY. A rhetorical question, I wonder where responsibilities are placed and where priorities are placed.

Mr. VON RAAB. I would point out, by the way, that our personnel are involved in inspections for contraband. Inspectors that are not at those primary stations are inspecting cargo for drugs.

SOUTHWEST BORDER

Mr. LOWERY. Commissioner, I understand. And I commend you for all the efforts you have done with the South Florida Task Force in which Customs played a major role. But with incontrovertible information coming in there is massive smuggling operations going on in the Southwest, we do not seem to be making the necessary commitment of personnel in responsibilities to that problem.

Mr. VON RAAB. Well, we have increased our staffing along the Southwest border. I do not think it is sufficient. I do not disagree with you. It is a serious problem on the Southwest border.

The Mexican situation is intolerable. The level of corruption in Mexico is intolerable, the production of drugs in Mexico is intolerable. The transiting of drugs across Mexico is intolerable. And it must be addressed with considerable vigor.

Mr. LOWERY. There is some suggestion in some of the press accounts coming out of San Diego that Customs officials in San Diego implied there is some sort of a concerted policy to slow things at the border to punish Mexico or assert pressure on them.

Mr. VON RAAB. That is absolutely wrong. That was a misconstruction, gross misconstruction, by some reporter. Basically what the Customs Service said was that we would return to normal numbers, that is the numbers that we were responsible under our agreements to provide. Someone misinterpreted that as returning to the intensified processing that we saw during the Camarena investigation. That was not what was going on.

Customs was unhappy with the level of immigration resources, which has now been corrected.

Mr. LOWERY. If it is an interagency squabble, we should certainly be able to resolve that problem.

Mr. VON RAAB. We believe it is resolved.

Mr. LOWERY. The point I would make, if it is indeed a conscientious or even a benign neglect of policy of slowdowns at the border, the evidence I have is that better than 60 percent of the cars crossing have California plates. And I fail to see how that exerts great pressure on Mexico. That applies a great pressure and inconvenience to U.S. citizens.

Mr. VON RAAB. There is no policy of slowing down at the border.

Mr. LOWERY. I am also informed that a good deal of the problem is that secondary inspection area has been understaffed and sizewise is inadequate, and that what the primary inspectors are

doing is spending time at the secondary areas. Is it because of the inadequate situation in the secondary inspection area, that is causing delays and slowdowns?

Mr. VON RAAB. Knowing of the concern of this Committee in the operation in places such as San Diego or San Ysidro, we had a team that went out to San Diego. I have only today received their report. I will make sure to look into the question of staffing and the secondary areas and facilities when I read the report.

This is not some device to avoid my commenting on the report. I honestly have only gotten it today.

Mr. LOWERY. I am very interested in that report and would like to confer with you further.

Mr. VON RAAB. I would be happy to show you what is in it and work together to address any of the shortcomings shown in the report.

Mr. LOWERY. I appreciate the indulgence of the Committee.

DRUG ENFORCEMENT

Mr. ROYBAL. Mr. Wolf.

Mr. WOLF. Thank you, Mr. Chairman.

I want to welcome you here. I do not think anybody in the Committee would disagree, I think you do a great job, I think the job that Customs does on drug enforcement is commendable. I understand Bill's district is a little bit different than mine. If there had been a forced shutdown when the Camarena killing took place, I would have saluted you for having a shutdown.

I think it is important for our country to get tough with the Mexican government. I just read an article the other day that they think the individual who is responsible for the killing is now staying in a couple of govenors' palaces down there.

Mr. VON RAAB. That is correct.

Mr. WOLF. We have just got to let them know that we are not going to be the patsy of the world, and let the drugs come in and ruin the kids of this country.

Mr. LOWERY. I do not disagree with having the highest priority of interdiction of drugs. If we have to send significant signals to our neighboring countries to get that across, so be it. But we need to stay up front with what our policies are and signal quite clearly. If it is bureaucratic problems, as seems to be the case here with the U.S. agencies, let us resolve it. And if indeed there is a problem, let us commit the resources and the manpower that is required to do the job.

Mr. WOLF. I agree, I agree.

Mr. VON RAAB. The slowdown during the Camarena investigation was intentional. The Mexican government responded accordingly and finally started to offer cooperation. Any recent problems in San Ysidro were the result of local problems there. There was no effort to slow down anything.

We have addressed the problems and we believe they have been corrected.

Mr. WOLF. I understand Bill's problem. And I am glad if you can work it out for them.

The other comment I want to make is that concerning your whole testimony Mr. Coleman raised a good point. You and he really seem to agree. You say on page 2, "Frankly the budget levels for S&E and air program do not permit us to do everything we might wish to do" and on page 3, "require some hard choices."

And I think the problem you are going through is really the effect of Gramm-Rudman. I think it's short-sighted to require agencies to take automatic cuts across the board when you ought to be making one agency cut more and give you guys more. So I think their frustration is maybe really the same.

BUDGET CUTS

Mr. COLEMAN. If you yield for a minute, it is not Gramm-Rudman that caused the '87 budget request. We have been getting requests every year that say 800, 2,000, this time 1,547 less people.

Mr. WOLF. I think they need more.

Mr. COLEMAN. Half of 1547, 777, is a result of Gramm-Rudman, but not all of it. It is not all Gramm-Rudman. It is the Administration's desire once again to cut Customs.

Mr. VON RAAB. It is not a matter of automatic imposition of Gramm-Rudman. The budget submitted is a necessary part of a larger proposal to meet Gramm-Rudman targets.

Mr. COLEMAN. But the President requests cuts every year, even before Gramm-Rudman did the same. Did he not request cuts every year?

Mr. VON RAAB. The Administration has recommended cuts.

Mr. COLEMAN. Thank you for yielding.

Mr. WOLF. And I think the attitude of this Committee is you really need more people. The Committee does not disagree on that.

FORCED LABOR

Let me just switch to slave labor. Maybe I should direct this to Mr. Keating, although you are new. Last year I spoke with the Secretary and also with the Commissioner on the question of slave labor. Since that time I had an opportunity to meet with the man, S. Karavanskii, who had spent 30 years in a slave labor camp in the Soviet Union.

And he said "as a long-term prisoner of the Soviet Gulag, I know that the labor of prisoners is used on a large scale, and there are a whole series of concentration camps in the Soviet Union. They belong to the wood industries, extraction of useful wood products, and light industry and food industry."

He went on to say, "in the woodworking industry they also use slave labor." The Soviet economy uses prisoners in the iron ore industry, gold, nickel, and diamonds. He personally worked in a gold Odessa-59 establishment YUG 311-76, where there are women and thing that is particularly moving. He says Odessa Prison 290059, Odessa-59 establishment YUG 311-76, where there are women and children camps, camps where women and children are enslaved—the women work in the textile mills, and children make consumer metal projects.

You know, to back up, I know you are new in the job, Mr. Keating. This Committee year after year has put language in which

said that the Committee must act by December 31 to enforce the ban against goods made by slave labor. The Senate, Bill Armstrong, put in an enforcement date of March 1, 1986. A member got up and raised a point of order and struck it out. We are going to try to put it back in again this year, and craft it so it is not subject to a point of order.

Can I get a commitment too, one that you will meet with Mr. Karavanskii so you can talk to a human being who has been in a slave labor camp and has made items likes this? Number one, would you agree to meet with him?

Mr. KEATING. Let me just say this——

Mr. WOLF. Can I get you to do that?

Mr. KEATING. Yes, certainly.

Mr. WOLF. Give me where the Department is on this.

Mr. KEATING. Hopefully I can give you a quick overview. Since I have come aboard after the 1st of the year, as a result of the very clear mandate from the Congress on this issue, and certainly after conversation I have had with you and conversation with Senator Armstrong and others, I have spoken with Secretary Baker on a number of occasions about the issue. He has assured me, and I will assure you, we intend to abide by the law.

The Tariff Act of 1930 clearly states that the United States is not to import goods manufactured with slave or convict labor. Since the first of the year, Mr. von Raab and I have met with officials not only of our Department and his Bureau, but also the CIA with the view toward carrying out the Secretary's wishes and your wishes, attempt to assemble and re-examine all of the existing evidence that was found inadequate in '84, and update that evidence to the present time.

We have done that. We have examined the existing evidence or the evidence which was previously examined. We have brought new evidence to the 1st of the year. We are in the process now of assembling additional evidence.

We have made it very clear to all parties that we intend to move provided the evidence is there. We brought the Justice Department into the process during the course of the last several weeks because of the need to assemble witness testimony such as this gentleman as well as tangible physical evidence to introduce in any court action following the Commissioner's actions.

So we have understood that the March 1st deadline is what Senator Armstrong wanted to see. We think more realistically it will be April 1st. But we are hot on the issue, and we are presenting the evidence and assembling it for the Commission.

Mr. WOLF. I want to thank you. Because I think it is exactly what we have been trying to get. I think you are going to find that the evidence proves that there are slave labor goods coming in from the Soviet Union.

The second thing, for the record would you just state your understanding of what you have to find. You do not have to have the smoking gun. You do not have to have the individual's name on it or something like this. Can you just for the record state what do you have to find in order to bring a prosecution?

Mr. KEATING. It is my understanding, Congressman, that under the law if the Commissioner finds reasonable but not conclusive

evidence to suggest that a particular good or category, classification of good, is manufactured in whole or in part by slave labor, he can ban the import of those goods.

As you know, in '84, it apparently was found to be that the evidence presented to date was not satisfactory to meet that criteria. We have taken it a step further. We say, all right, we want to find the evidence to support the Commissioner's decision, and also we want to find the evidence to support the court challenge which we anticipate to come once the goods are proscribed. And in that case we need to be able to narrow the evidence to get individuals, to get physical evidence, which will sustain our position.

So I have requested that we attempt to get the most current evidence that we can and the most current, hard source evidence that we can. And that is what we are in the process of getting right now. For example, evidence which is eight years old probably is not sustainable in court.

So we want evidence that is certainly within the last three years. We want evidence that will be supported by more than one source. And we are in the process of attempting to assemble that right now.

Mr. WOLF. Good. I want to thank you, Mr. Keating. I am really glad you are there. The individual that had your job, I am sure he was a fine, outstanding individual, he is now serving on the bench, but we just could not get any action on this matter. It sounds like what you have done is really move ahead. And I want to thank you very much. We will work with you anyway we possibly can.

And again to the Commissioner, I want to commend you on the job you are doing. I do agree with Mr. Coleman and Mr. Lowery and the others, we do think you are doing a fine job and think we do need more people because of the importance of the fight against drug smuggling and the others. But again, I want to thank you.

Mr. ROYBAL. Thank you Mr. Wolf.

Mr. Dicks.

SEATTLE DISTRICT

Mr. DICKS. Thank you, Mr. Chairman, for yielding.

And I appreciate the tolerance of my colleagues, since I am not a member of this Subcommittee but am a member of the Appropriation Committee, to be here today.

Mr. von Raab, it is very nice to see you again. I want to say here that we deeply appreciate the help we have been given by Lynn Gordon on your staff. Dealing with Customs at times has been frustrating over the last several years, but Lynn Gordon has really helped us and given us the kind of response and answers that I think members of Congress are entitled to.

I, as you know, represent the area around Puget Sound in the State of Washington, Seattle, Tacoma area. Of course, it is a very major economic area. We have been concerned about the staffing of the Customs agencies in our area.

And for members of Congress sometimes it is very complicated to understand because you deal in what you call full-time equivalents, and that varies up and down with vacancies, and things of that

nature. But as you know, Congress added in the FY '85 supplemental 20 positions.

Now, the way I would think of that is that if we added 20 positions, that should be 20 additional full-time equivalents to our area, not just filling vacancies that existed. Now, that certainly is what I intended when I offered the amendment. I think that is what this Committee thought would happen.

Can you tell us what in fact did happen in our region?

Mr. VON RAAB. In June of 1985, anticipating the levels we saw coming in the continuing resolution, we instructed our regions to hire 797 Customs officers. These instructions remained in effect until the impact of Gramm-Rudman became clear. At that point we made adjustments to the instructions. In June we gave instructions to the Pacific Region to hire 15 inspectors, two canine officers, and three import specialists, 20 positions in total.

Mr. DICKS. But at the time you did have vacancies in the region; is that not correct?

Mr. VON RAAB. We talk about vacancies——

Mr. DICKS. I understand that. You have not an authorized level of staffing for that area.

Mr. VON RAAB. Right.

Mr. DICKS. You were down below that level of staffing because of vacancies. Now, what you have said we have——

Mr. VON RAAB. Because we did not have the money to hire them.

Mr. DICKS. You did not hire these 20 additional people. What you really did is fill 20 vacancies that you already had?

Mr. VON RAAB. Vacancies are immaterial to the Customs Service. The question to us is what are funded positions. We had funded positions. And we were at our full level of funded positions in Seattle in June. Anticipating the——

Mr. DICKS. June of when?

Mr. VON RAAB. '85. And we provided funds to fill 20 additional positions in the Seattle district, of which 15 would be inspectors.

We unfortunately had a rather ineffective district director, who I am happy to say is no longer the district director in Seattle. And for some reason known only to himself, he did not manage to hire these people. And what happened was that by the time the Gramm-Rudman cuts came down and we were forced to make adjustments, those people had not been hired.

What happened was, at that point, those funds that should have been spent were available to us as savings, and we withdrew them from the district.

As a result of Senator Gorton, Senator Evans, and your concern in this area, as you know, we have sent a team out, as a matter of fact the same team that has been in San Ysidro, to look at what we should do.

I will tell you the recommendations of the team so we can get to the bottom line.

Mr. DICKS. We appreciate that.

Mr. VON RAAB. Our vacancies, 18 of them, should be filled immediately.

Mr. DICKS. You are going to hire 18 additional people?

Mr. VON RAAB. I am saying that is the recommendation to me.

Mr. DICKS. What are you going to do?

Mr. VON RAAB. I will assume the recommendation and fill 18 positions.

Mr. DICKS. I hope we have a district manager who is smart enough to implement that right away before Gramm-Rudman falls on it again.

Mr. VON RAAB. If you will permit me, since I know the labor issue quite well, I did take the opportunity to read the report also on San Ysidro. I am happy to report that the recommendations on the San Ysidro area are that vacancies of two at Calexico, five at San Ysidro, one at Tecate, and one at Andrade.

Mr. LOWERY. How about——

Mr. VON RAAB. That is not a recommendation of this report. I have consulted quickly with our controller and she assures me that Customs Service will undertake to fill these positions. That is kind of a quick report.

SEATTLE-TACOMA FULL-TIME EQUIVALENTS

Mr. DICKS. Can you tell me how many full-time equivalents we have right now in the Seattle-Tacoma region?

Mr. VON RAAB. My understanding is that in Seattle the district staffing right now is 291 people.

Mr. DICKS. So we are going to go up? And the recommendation is 18 over the 291?

Mr. VON RAAB. By the way, the 291 includes the import specialists and others. We have 161 inspectors.

Mr. DICKS. I am told we are authorized 316.

Mr. VON RAAB. Authorized is——

Mr. DICKS. Does not make any difference?

Mr. VON RAAB. That is the problem we are having in this whole thing. Authorization is unimportant. Money available to pay for the people is what is important. We believe we only have money to pay for 291. We are going to——

Mr. DICKS. Add 18 above that.

Mr. VON RAAB. We are going to provide the district with money to add another 18.

Mr. DICKS. Because in a sense you sent your team out there, and you found you were at least that short?

Mr. VON RAAB. That is right. Now, do not ask me whose district is going to be hit for the 18 people? But I can assure you it will not be on this Committee.

Mr. DICKS. There is a practical man. We thought you were getting the message why we are all here.

One thing I wanted to ask, I understand one other issue that is important out there to obviously our colleague, Congressman Swift, the border question there that is going to be. I have a question I want to ask you for the record on that. But let me ask Mr. Keating one question.

TEXTILES

We are concerned about the revised directive that you will make effective on March 9 regarding textiles. What we are worried about is that there has been some pressure applied to your agency to put into effect some regulations dealing with textiles that we think are

going to cause unreasonable delays in clearing textiles through the ports on the West Coast.

And I want to ask you about that because, you know, I mean textiles are important, but they are not as important I think as some of the other areas where we have deficiencies in personnel, like at the airports, in the drug program, and other areas that the Administration has talked about.

Can you tell me what you are doing on textiles? And are you going to be implementing regulations that are really aimed at slowing textiles from coming into the country? Is that really the political objective, Mr. Keating?

Mr. KEATING. I knew we would get into this, Congressman. The textile directive that you are referring to was issued by the Customs Service on January 9, if my memory serves me correctly. When I heard about the directive and began to become informed about what its impact would be and what the policy reasons for its implementation were, Commissioner von Raab and I had a meeting.

And we agreed that, A, the law was on our side in the manner in which the directive was issued; and B, because of the extent of quota avoidance, because of the split shipment problem, because of the problems at the port with respect to textile and apparel products, that the directive was proper. However, I felt, and Commissioner von Raab agreed with me, that an additional 60 days was necessary in order for the community to be able to adjust to it.

I met with a number of people from the import community at that time and subsequent to that time. They have requested a meeting with Commissioner von Raab for the purpose of determining whether or not amendments to the directives would be appropriate in the case, for example, of samples. During the course of those meetings, Congressman, the samples were the area of most need.

So Commissioner von Raab had meetings with those individuals and he has amended the directive to provide for the sample problem. The specifics of that amendment he might want to go over with you.

But we have attempted to address the problem of adherence to the bilaterals, the problem of quota avoidance, the problem of criminality with respect to textile and apparel products, but at the same time provide for the free flow of commerce, provide for the consumer interest. We have attempted to balance those two. And we felt that the directive was necessary, the delay of implementation was appropriate to prepare the community, and that the amendments that Mr. von Raab had and that the Customs Service has recommended would involve the lion's share of the problem mainly with respect to samples.

Mr. DICKS. I have been told that merchandise—this is regarding Taiwan—even though it is valued under $250, they will need to have it entered formally, which will force the importers to hire a broker at considerable expense. Now, their merchandise is not worth very much. The brokers are quoting them fees from 80 had $150 to get merchandise worth only $250 released from Customs.

Now, that does not seem to be——

Mr. VON RAAB. May I just try to explain. We were told by the number of men and women who represented the industry that 90 percent of these informal entries were samples, and that if we could correct that problem, we would be home free. No shipment that is a sample will be subjected to those restrictions, those requirements.

We will require, however, that samples be marked in such a way that they cannot be resold into the commercial markets.

I believe that the trade is comfortable with the adjustments that we have made. If you hear to the contrary, please let us know. I am not certain that the people that raised those concerns are aware of the changes we have made.

Mr. DICKS. The people talking to us are the people who are importing patches, these things that kids put on their little jackets for baseball, football, less than 250 bucks. And they are being told they have to get a broker to handle these things. And it is going to cost them a lot of money to do it.

Mr. VON RAAB. I have made an open offer to all of the importers that we will be happy to meet with them.

Mr. ROYBAL. Your time has expired.

Mr. Akaka.

Mr. DICKS. Thank you, Mr. Chairman.

CUSTOMS OPERATIONS IN HAWAII

Mr. AKAKA. Thank you very much, Mr. Chairman.

Mr. von Raab, I want to express my gratitude to you and your staff in Hawaii for the hospitality and the information they provided for our Committee when we visited Hawaii. I also want to thank the members who went to Hawaii to visit the Customs operations there. And I want to tell you that George Roberts is a good soldier for Customs, and with his extensive experience he has been doing a good job for Customs.

We have been very, very concerned about Hawaii's position in the Pacific, Hawaii's position relative to the rest of the continent, and its position to the foreign countries of the East and Russia. And we have been very concerned about illegal imports that have been coming in through ports all over the U.S. And we understand there is about $3 billion in duties that can be accounted for as annual loss to the Treasury because of these illegal shipments because we don't have the kind of personnel that we think should be manning our borders.

Also we are seriously impacted by illegal exports out of the United States of technical equipment, that we believe is going to the Soviet Union and other Communist countries. And this impacts on the staffing of Customs.

And we know that the staff today of Customs Service is the same as it was in 1976. And we know today that the Customs Service and its responsibilities has expanded and not contracted, and yet we are using the same staffing level as 1976.

In addition to all of this, imports and exports, we have problems with drugs in Hawaii, as you know. And it is a big problem to our country because it is a trans-shipment point.

And I must add that our Customs people have been doing a tremendous job in interdicting in Hawaii. But we need more help out there.

As you know, I have asked and placed in the law here, that was signed and passed, asking for 24 positions to work on narcotics interdiction. And we have not received that to date.

And I agree with the President when he mentioned that we have the twin evils of narcotics and terrorism in our country. And I would say that by the kind of proposal that you are offering us, that the Service is not willing to back up the President's comments of doing something on narcotics and terrorism. And I say that because of your proposal of cutting personnel by 1446 positions.

And my feeling is the feeling of other members of this Committee, that it will cripple the kind of service that we should be giving to the Customs, and especially in the war against drugs.

If Congress approves your budget request for the Customs Service, it is difficult for me to see that we can continue to carry out the kind of quality and the kind of service that is needed to collect the kind of revenue and to protect illegal exports from getting out of our country, and other responsibilities that you have as a Customs Service. With all of our problems with illegal imports, exports, Mr. Commissioner, and especially with the never ending flood of drugs entering our country, my simple question to you is: how do you expect to carry out the work of the Customs Service with a cut of 1446 positions?

Mr. VON RAAB. Well, no one has suggested that this cut will not make our work more difficult. What I have said is that the way we will take the cut will not impact the area of drug interdiction. I believe that we will not substantially reduce our preventative mechanisms at the border.

As far as Hawaii is concerned, you are right, George Roberts is very good and has made a number of modifications in the way he schedules shifts and uses part-time inspectors. Although the number of full-time inspectors in Hawaii has not changed substantially, I believe we have actually increased the coverage.

I am aware of the problems that you have had out there, such as people being held on planes. The problem was that people were unable to process through immigration because the Immigration Service was not staffing at the front line. In Hawaii it is a two-stop system. I am informed that the Immigration Service is prepared to put five more immigration officers into the front lines. That should reduce some of the problems you have been seeing.

I believe your staff met with mine, and we have agreed to test what is called a one-stop system. We believe this will be a more efficient use of the combined resources of Immigration and Customs and will facilitate easier movement of legitimate passengers through the airports in Hawaii. In addition, it will free more resources to handle some of the smuggling problems.

Mr. AKAKA. I also want to tell you, as the Committee visited the operation, I was very impressed with the agents there and the way they handled passengers coming through.

Mr. VON RAAB. I am glad to hear that. Thank you very much.

Mr. AKAKA. They were very courteous, kept their voices low. But in listening in, they were talking seriously.

Mr. VON RAAB. Oh, yes.

Mr. AKAKA. For instance, one of them spoke very quietly and said may I see you in the next room. We know what that mean.

Mr. VON RAAB. That does not mean anything good.

Mr. AKAKA. But it was done so quietly without arousing any commotion. But they do a great job there. And we are very grateful for that.

PART-TIME POSITIONS IN HAWAII

You mentioned part-time positions. I know that part-time positions in Hawaii have been used very well with this peaking, traffic coming in on the 747s.

Mr. VON RAAB. Right.

Mr. AKAKA. Is that status still there? Is it continuing? Do you know?

Mr. VON RAAB. The budget proposals will affect the use of part-time inspectors. We will be reducing part-time inspectors, moving to a single shift. Therefore, a lot of the work that was done by part-time inspectors will be done by full-time inspectors on overtime.

Mr. AKAKA. Are you saying that these part-time positions will be eliminated? You use the word reduced?

Mr. VON RAAB. You know, we are working into the '87 and '86 proposals. I do not want to say that your 30 part-time inspectors will be eliminated. What I am saying is that I cannot assure you that they will be kept. I am not dancing around the issue, but I want to be honest. I think they are at risk.

Mr. AKAKA. I just wanted to be sure whether it was going to be eliminated. From what you said, it may be reduced.

Mr. VON RAAB. Yes.

USERS FEES

Mr. AKAKA. Another concern that we have out there, and that is rising rapidly, and I am sure other members have heard about this too, is the Customs user fee. I understand it was proposed by the Administration, and that it would give the Secretary of Treasury the responsibility of implementing the program of user fees.

Will the Administration follow the same approach in FY '86 on user fees?

Mr. VON RAAB. The plan is to seek approval of the user fee approach for the '87 fiscal year. There is not enough time to employ them in the '86 fiscal year. It requires legislation.

Mr. AKAKA. Also that the proposal was for the money to revert to the general Treasury.

Mr. VON RAAB. To the general fund, that is correct.

Mr. AKAKA. Is there any move to try to get it as a revolving fund to be used by Customs?

Mr. VON RAAB. That is an OMB issue. I do not know if anyone feels they can comment on that or not.

Ms. KENT. The Department has not yet submitted legislation to OMB to establish the fees proposed in this budget and so on. The financing mechanism I think is an issue that we are considering within the Department. I do not believe it would be a revolving fund. There is some discussion going on about what the most ap-

propriate treatment of the receipts is. As soon as that is resolved within the Administration, we will be glad to report to you.

I wanted to indicate also that although the proposal that we reflect in the President's budget this year relates only to 1987, there is an assumption in the receipts estimates included in the President's budget that the pending proposal and reconciliation bill will be enacted some time in year.

So I think there are some $60 million in receipts that relate to that.

Mr. LOWERY. Will the gentleman yield?

Mr. AKAKA. Yes.

Mr. LOWERY. If there is a user fee, will that revenue go to the general Treasury or stay within the Customs Service to give better service?

Ms. KENT. As I said before, the issue of the treatment of receipts of financing has not yet been settled within the Administration. There are, of course as you know, traditional objectives within the Office of Management and Budget to deposit receipts any place else in the general fund.

We are aware that there is a linkage between receipt levels and service. And we are still looking at that. And we will be working with the Office of Management and Budget to come up with a resolution. We will be willing to report to you before the legislation on what the decision is.

Mr. LOWERY. I am sure the entire Committee will be interested, particularly when we are so short-handed, not only on importers and exporters, but likely stepped-up enforcement.

Mr. COLEMAN. Will the gentleman yield on that point?

Mr. AKAKA. I yield.

Mr. COLEMAN. I think there are going to be a number of us who represent border areas who ask about user fees for filing your income tax forms. The issue is whether it is a national issue or whether only those in close proximity to the border.

Mr. KEATING. I have heard that argument.

Mr. VON RAAB. Are you proposing that type of user fee?

Mr. COLEMAN. I think this Committee has got a right to determine whether or not a user fee is valuable at all.

Mr. KEATING. That very example has been discussed, obviously as a light hearted example, that has been discussed.

Mr. COLEMAN. Thank you.

Ms. KENT. Mr. Coleman, the Administration is also proposing certain fees, but for determination letters. So it does not quite get to your point, but I think there is an attempt at some equity there.

Mr. AKAKA. Mr. Chairman, my last question and my last concern is the concern about GATT and its requirements. And it seems to me that the Customs user fees may be inconsistent with the binding obligations under general agreement on tariffs and trade.

Mr. VON RAAB. The lawyers involved in the crafting of this legislation are well aware of the concerns that have been raised as to whether or not this violates GATT rules. I can assure you they are looking at that. Whatever proposal they will make will not violate the GATT rules.

Mr. AKAKA. We will keep up with you on that.

Thank you very much, Mr. Chairman.

Mr. ROYBAL. Thank you, Mr. Akaka.

I would like to associate myself with the remarks made by the Gentleman from Hawaii with regard to the efficiency of Customs personnel in Hawaii. I also feel that they are doing a very excellent job. And we would compliment that kind of an effort.

CUSTOMS DRUG ENFORCEMENT

However, in looking over your statement I find that you state that with regard to cocaine, Customs enforcements groups have produced outstanding results during the past five years. May I say that I think they produced good results.

Mr. VON RAAB. Thank you.

Mr. ROYBAL. But not outstanding. And I think there is a difference. And I say that because I believe that narcotics are available at every junior high school, every high school, and every college in this country.

Now, we had the opportunity to visit Hawaii and to look at the situation there. I want to tell you about the experience we had, something that I did not expect to find.

We went up in a helicopter. Before we did that, we were briefed as to what we were going to see. Unfortunately we were not able to see too much because of a fog, but we were able to definitely conclude that marijuana is grown in Hawaii, particularly that island, by people who come from the United States mainland. It is not being done by the natives. That place is just loaded with marijuana plants.

When we got back, I told the person who was informing us that I was appalled at what I had seen. He said, Congressman, the only thing you have to do is look at California. He said California, Hawaii, and Florida can grow more marijuana than all other states combined, plus the marijuana that comes in from out of the country.

I asked Mr. Roberts what he thought we could do about that. With all of the experience he had, he could not give me a direct answer.

The truth of the matter is that we have a tremendous problem in our own country. I do not know what the legality would be of going out there and destroying all of these plants, but they should be destroyed. Something has to be done in California, Hawaii, and any other state that grows this junk. You see, we have not done that well.

We were also told that this very good marijuana that is grown in Hawaii is exchanged or bartered for cocaine. This marijuana is being sent out to the mainland using the U.S. Postal Service.

CANINE ENFORCEMENT TEAMS

We have one dog in Hawaii, at least on that island, that works four hours a day, and can only work four hours a day, to sniff out the marijuana packages that are sent out of Hawaii.

Then I asked, "How about in California? How many dogs does Customs have in other places? The answer was very alarming.

Now, this Committee has been very pro Customs, as you know.

Mr. VON RAAB. Yes.

Mr. ROYBAL. We put money into Customs for every appropriation for the last six years that was not recommended. We have done that because we feel that Customs should definitely have moneys to get the personnel that is necessary to go out and do the job. We also do that because we firmly believe that Customs is a revenue producing Department and that the more we invest in that Department the more revenue we can get back.

I would like to be in a business where I could invest $700 million, and then produce an income of $13 billion. I do not know of any business in the United States that does that well.

You said also that Customs Service goals also include efficient cargo and passenger processing. We agree with you. This Committee has been very supportive of that goal.

Then you went on to say for several years Customs has emphasized its fraud efforts against unauthorized steel, textile, wearing apparel imports, drawback, and trademark and copyright violations. You probably remember, Mr. von Raab, that we were quite helpful in that.

Mr. VON RAAB. Absolutely.

Mr. ROYBAL. We were interested in helping in that effort. And then I remember also that some years ago this Committee recommended that we fund aircraft, to go out after these people that come across the border with sophisticated aircraft. Because I also had the experience of riding in the aircraft that we had in the pursuit of another aircraft that, just in one instance, we could not even see. Our aircraft a few years back did not have the sophistication that was needed. It was this Committee that recommended the aircraft. We had no recommendation in that budgetary request.

The point I am making is that we have a Committee here that has been wanting to work with Customs for years. We have not been given the opportunity to work together.

Now, kiddingly I said one day to you that you and your staff probably spent the night trying to figure out what you can do not to promote the best interests of the Customs Service. I was kidding. I know you are interested in Customs. However, my statement was not too far from the truth. When we see the positions that you are taking, we find that we still have problems, particularly with narcotics and so forth.

Now, this afternoon we are going to go further into this matter of narcotics. We would like to examine Customs with regard to personnel and what they are doing. I would like to know how much is being spent for the purchase of and the training of dogs. In case you do not have that at this particular time, I hope you can get it.

Mr. VON RAAB. We do. We have 100 dog teams now. But we are bringing another 30 on board.

Mr. ROYBAL. We would like to know what the situation is. I would also like to know what the Florida Task Force is doing, what that task force is costing.

Mr. VON RAAB. May I just clarify that.

Mr. ROYBAL. Well, what I would like to do, Mr. von Raab, is do that this afternoon.

Mr. VON RAAB. It would help us this afternoon. There is a task force between DEA and Customs, and then there is the interdiction effort down there. I assume you want both figures?

Mr. ROYBAL. Yes, sir.

All right, that is what we would like to look into this afternoon. We thank you for your attendance this morning. The Committee will be in recess until 2:00 o'clock.

AFTERNOON SESSION

Mr. ROYBAL. The Committee will come to order.

The Chair recognizes Mr. Skeen.

Mr. SKEEN. Thank you, Mr. Chairman.

POSITION AUTHORIZATION

Mr. Commissioner, let us go back to this—this personnel thing is very critical to us because we are concerned about how the commercial that the drug interdiction missions that you have are sensitive to both sides or all sides of the job, and it is all personnel critical to us. And I get the feeling sometimes that we think that we fund the positions and give you the budget funding for positions and they just do not get filled. And that has been part of our problem.

And then understanding, too, that you have authorization for funds or position, and you choose either to either fund them or not fund them.

Has that been the case?

Mr. VON RAAB. Well, can I just go through 1985 again?

Mr. SKEEN. Let us go through it.

Mr. VON RAAB. All right. In 1985, as a result of the lack of knowledge of what the '86 budget was going to be, we operated on a very tight rein.

Also our '85 budget was never really finalized. We were operating under continuing resolutions.

It was not until June of 1985 that we felt we had a clearer understanding of what monies we had. This was strictly as a result of conversations with members or their staffs and, understanding what the Administration was likely to do. It became clear to us that Customs resources were going to be greater than we were operating under because we understood there was also a supplemental appropriation.

We also understood that the '86 budget was likely to be higher rather than lower. On the strength of those feelings literally, the Customs Service allocated 700 and how many positions?

Ms. GORDON. 797.

Mr. VON RAAB. 797 positions against the prospect of a supplemental and a more generous '86 budget.

Now, both of those events took place. We did receive a supplement for some hundred and——

Ms. GORDON. 120 positions.

Mr. VON RAAB. 120 positions at the end of the summer. And we did ultimately get a continuing resolution that increased us by 600, witness the 700 odd people. But, until that point, we did not feel as responsible managers, we could spend those monies because we did not have them.

When you think of the additional positions that you gave us as a Committee and as a Congress, we do not have them until the

budget has been enacted. It is not that we do not believe you, but it is a complicated process and one which can change.

Mr. SKEEN. You mean we were not credible?

Mr. VON RAAB. No. The process is not predictable.

Mr. SKEEN. All right.

Mr. VON RAAB. We allocated those positions. Well, as members, you pass a law that is signed, and the law says 20 people. In the case of San Diego, for example, we had already hired some and the rest were underway.

Within two or three months, the Gramm-Rudman issue surfaces. I, as a manager, am now faced with trying to predict what is going to happen there. We have only been hiring against that 797 number for a couple of months. In the Federal Government you just cannot hire 700 people overnight.

While in the process of filling these additional positions Gramm-Rudman takes effect and, in spite of what the continuing resolution says, we must reduce staffing. Therefore, we revoke a certain number of those positions. Even though the authorization sets a higher level we remain below that level as the numbers may continue to fluctuate before final approval. This is compounded by the fact that we were never given sufficient funds to pay for all of the positions due to a certain slippage in attrition.

Does that help?

Mr. SKEEN. That helps. All right.

Let me go on with this line of questioning.

UNOBLIGATED BALANCE

You have got an unobligated balance in 1985 of $10.9 million for FY '85, is that right? That is 9.6 million and no year in multiyear fund.

Mr. VON RAAB. That is correct. But $9.6 million of that was no year money.

Mr. SKEEN. And multiyear funds, right? It is a mix.

Mr. VON RAAB. Right.

Mr. SKEEN. How is this money to be spent?

Mr. VON RAAB. The supplemental included $12.2 million for the Marine Program, of which $3.8 million was obligated in FY 1985. The additional $8.4 will be obligated in FY 1986 for interceptors and aerostat operations. $1.2 milion of the unobligated balance will be used for research and development in FY 1986.

Mr. SKEEN. Okay.

Mr. VON RAAB. The $8.4 million has now been obligated to pay for additional marine equipment.

Mr. SKEEN. You cannot reprogram that money.

Mr. VON RAAB. No year funds we cannot.

Mr. SKEEN. No year funds?

Mr. VON RAAB. No year funds.

Mr. SKEEN. Which made up the major portion of the 10.9 million.

Mr. VON RAAB. Yes. Right.

Mr. SKEEN. And it could have been reprogrammed into personnel?

Mr. VON RAAB. No.

Mr. SKEEN. It cannot?

Mr. VON RAAB. No, not without your permission.
Mr. SKEEN. Without our permission.
Mr. VON RAAB. Not without your permission.
Mr. SKEEN. Okay.
You have got an unobligated balance too in the air program, the Customs air program of 12.3 million.
Mr. VON RAAB. That was for our chets, right?
Mr. SKEEN. That is FY '85.
Mr. VON RAAB. Is that for our chets? It would be for our chets which is not——
Mr. SKEEN. Okay. It is $11 million in multiyear resources and then——
Mr. VON RAAB. That was part of the $25 million of money provided to Customs to buy eight high endurance aircraft. In this case that is the Cheyenne 3s that are specially outfitted for Customs missions, not to be——
Mr. SKEEN. Well, I understand that.
Mr. VON RAAB. They are not the P3 program.
Mr. SKEEN. They were not the P3 program.
Mr. VON RAAB. It is a Cheynne 3 that we call our CHET which stands for customs high endurance tracker.
Mr. SKEEN. Why was not the remaining 1.3 million obligated? I think you obligated 11 million in multiyear, and then you got 1.3 million that you have not obligated the way we read it.
Mr. VON RAAB. I think we will have to get back to you on that, Congressman.
Mr. SKEEN. It is an unobligated balance, and I just want to know what your——
Mr. VON RAAB. My guess is that, and we are conservative in the way that we spend our monies——
Mr. SKEEN. We know you are very conservative. We are not trying to push you in that hole.
Mr. VON RAAB. As I said, we went through a number of peaks and valleys with this budget, and I will provide you with an answer for the record.
Mr. SKEEN. All right.
[The information follows:]

UNOBLIGATED BALANCE, AIR PROGRAM

Of the total $12.3 million remaining unobligated in FY 1985, $11 million was included only as a technical requirement to balance out the overall appropriation. The $11 million was appropriated as part of a FY 1985 Supplemental late in the year with multi-year spending authority. Customs will spend the $11 million in FY 1986 as follows:

	Million
Site survey and preparation for SW border aerostat	$1.0
COMINT system for P3-A	2.0
2 sensor integration systems for P3-A	.6
Marine radar in King Air/C-12	1.0
Infrared surveillance equipment for CHET	4.0
ROCC Miami/March AFB	2.0
CARIBALL security	.4

With regard to the remaining $1.3 million unobligated in FY 1985, Customs fully anticipated that these funds would be spent in support of several significant projects. In some instances, however, actual costs were below projections. The specific reasons are as follows:

Travel ($200K)—Due to the nature of case work, actual travel costs were not as high as originally anticipated.

Rent, Communications and Utilities ($400K)—Charges for data and communications lines were lower than projected.

Contract Services ($175K)—Actual cost of several repairs was lower than anticipated.

F-15 Radar ($433K)—Actual amount of Interagency Agreement for F-15 Radar was lower than originally estimated by the military.

CARIBALL ($100K)—This amount was set aside to cover contractor insurance costs, however, the contractor was not able to arrange for a policy.

Custom is implementing tighter fiscal controls to insure that almost all funds are obligated as authorized by the Congress.

Mr. VON RAAB. But informally right now my feeling is it is probably a result of conservative management and an unwillingness to throw the money out the window at the last minute.

RELATIONSHIP WITH MEXICO

Mr. SKEEN. Well, we do not want you doing that either.

Okay. Now let me get on to another line here.

You had—when we last talked about a year ago, or at last year's budget hearing, we had lost Camarena, one of your agents, and now we have lost another.

Mr. VON RAAB. A DEA agent.

Mr. SKEEN. A DEA agent.

Mr. VON RAAB. Yes.

Mr. SKEEN. Was Glenn Miles a DEA agent?

Mr. VON RAAB. No, sir, He was a Customs officer.

Mr. SKEEN. He was not a Drug Enforcement officer at all?

Mr. VON RAAB. He was our drug enforcement officer. He was a patrol officer for the Customs Service.

Mr. SKEEN. Oh, I see.

Mr. VON RAAB. But when I say that Camarena was a DEA agent, in other words, he worked for the Justice Department.

Mr. SKEEN. Yes. I understand that.

Mr. VON RAAB. Officer Miles worked for the Treasury Department, Customs.

Mr. SKEEN. For the Treasury Department, yes.

But they were all working in the——

Mr. VON RAAB. All working in the narcotics area.

Mr. SKEEN. The narcotics area.

Mr. VON RAAB. In the narcotics area, right.

Mr. SKEEN. And I have been a little concerned about that.

What is our relationship now with Mexico? And did this one happen on the border?

Mr. VON RAAB. Well, you are asking a very vocal critic of the Mexican apparatus.

Mr. SKEEN. I am a very vocal critic. I want to know what progress they are making with them, if any, and if you do not think we are making any.

Mr. VON RAAB. I think the progress we are making in the DEA investigation is dismal. That is the issue of the Camarena murder.

The Miles investigation is primarily a U.S. investigation, and my understanding is that the level of cooperation we are receiving from the Mexican authorities is very satisfactory. It is not satisfactory on the Camarena investigation. That is the one to which

either you or Mr. Lowery referred to, one of the kingpins living in the Governor's palace.

Mr. SKEEN. Yes.

What is the difference? You are working with different Mexican groups or what?

Mr. VON RAAB. I think the difference is that in the Camarena case, he was a knowledgeable agent working on large drug conspiracies that touched the personal lives of many high level officials.

In the case of Officer Miles, it was probably a case in which we are dealing with lower level smugglers——

Mr. SKEEN. More localized.

Mr. VON RAAB. Yes.

But in the Camarena case, without question, there are issues that reach deep into Mexico City.

Mr. SKEEN. We are putting a lot on the Southwest intitiative, the Southwest Drug Interdiction Initiative, a lot of reliance on air interdiction or air detection.

Mr. VON RAAB. On the Southwest border?

Mr. SKEEN. Yes, on the Southwest border.

Mr. VON RAAB. Not much reliance on air at this.

Mr. SKEEN. What we intend to, as I understood the program, we were due to increase that kind of detection.

Mr. VON RAAB. We will only be increasing our detection on the Southwest border with the CHET aircrafts to which we referred earlier and two P3As.

Mr. SKEEN. Okay.

What progress are we making on overflights into Mexican territory, any?

Mr. VON RAAB. I met just last Wednesday with the Mexican authorities, and I spent some time discussing this issue with our Ambassador. We have made yet another proposal to the Mexican officials that we fly P3s over Mexico. We are willing to put the United States of America logo and the Mexican logo on them, as well as allow Mexican officers on our planes.

Mr. SKEEN. Supposed to make them easier targets?

Mr. VON RAAB. We will do everything to get our planes into Mexico. They are still dragging their feet, and men like Sepulveda, who is the Foreign Minister, are still hiding behind this business about sovereignty.

Mr. SKEEN. Do you deal directly with them or do you——

Mr. VON RAAB. I have spoken to Sepulveda. Senator Hawkins and I were in Mexico two years ago, and I asked this question to him directly. He gave me a long lecture about sovereignty and not much concern about drugs.

Mr. SKEEN. So that is kind of where it sits and we are still——

Mr. VON RAAB. It is where it sits. However, there is a series of meetings that are taking place between Attorney General Meese and the Mexican Attorney General. The first took place in San Antonio and this issue was on the table for discussion. The meetings are to be taken up again in April, and this issue will be back on the table. The U.S. Government intends to push it very hard.

Interestingly enough, this same recommendation is contained in the President's Commission on Organized Crime report.

AIR PROGRAM OPERATIONS

Mr. SKEEN. You say that we are not doing any more about detection.

Mr. VON RAAB. Just the two P3s and the additional CHET's.

Mr. SKEEN. Other than—well, that is what I was referring to there. That does constitute an increase in the kind of equipment——

Mr. VON RAAB. That constitutes an increase over last year, that is correct.

Mr. SKEEN. Are those costs estimates still running about the same as they were as far as operation of P3s?

Mr. VON RAAB. Well, are we still running around $2,700 or $2,800 now?

Mr. SKEEN. Approximately, yes. What is the cost of termination on the P3s.

Mr. ROSENBLATT. $3,300 to $3,500 roughly.

Mr. SKEEN. $3,300 to $3,500.

In connection with that, I want to compliment the agency and you and the personnel. We asked—we had—Los Alamos has got this detection system, TOTO, they worked up. And I appreciate you having the holiday group come over and at least listen to their story. And they are working on something.

I know we have got some problems with money insofar as those detection systems are concerned. But I do appreciate your openness and I do appreciate the idea that you have given us, and am looking forward to some other technologies and so forth in connection with detection which is a far more serious problem in the Southwest in our view, along with interdiction, and that is predicated back on personnel once again.

I have no more questions this time, Mr. Chairman, and thank you.

Mr. ROYBAL. Thank you.

Mr. Coleman.

Mr. COLEMAN. Thank you, Mr. Chairman.

VACANCIES

Commissioner, I have a question relating to those vacancies.

When Mr. Dicks was asking about Seattle this morning, you commented that vacancies were not all that important. Last year, this Committee asked about a report on vacancies that Mr. Conte had requested in 1984. At that time you stated in the record that you had no knowledge of any report on vacancies but would look into the matter and submit a report to the Committee within three weeks.

It is my understanding that we have still not received such a report. And I would ask you have you seen such a report?

Mr. VON RAAB. Excuse us for this colloquy here.

I know that my deputy saw Mr. Conte just over the past week or so, and apparently they informed Conte that there was no report.

Mr. COLEMAN. You know of no such report?

Mr. VON RAAB. I do not. But let me just make sure no one else knows of such a report.

No.

Mr. COLEMAN. Vacancy reports in my view are very important to this Committee. Last year the Committee added funds to the fiscal year 1985 supplemental appropriations bill to provide Customs with the full funding necessary to meet the cost of the January 1985 3½ percent pay increase. We added these funds so that Customs would be able to hire the full amount of personnel authorized for FY 1985.

That was the understanding of this Committee when we did so.

However, because we have never received your report on vacancies or any report on vacancies, we are not sure if the money was spent for what it was intended.

You told Mr. Dicks that Customs did not have the money to hire all of the positions requested for Seattle in 1985, but the Congress gave you the funds to do just that. We provided you with the funds to make up that deficit caused by the 1985 pay increase. And my question is what happened to those funds?

Mr. VON RAAB. In June, I authorized the hiring of 797 people. Since this has come up a number of times, if you would like, I would be happy to show you the actual numbers that were authorized for hiring.

When we received the supplemental we increased staffing by 797. This exercise was aborted in mid-process when Gramm—Rudman became effective. What I am saying is that we began to move on that, but when the Gramm-Rudman axe fell, we then circulated a second document which—may I submit these, Mr. Chairman—which was a subsequent item.

When did this go out, Lynn, approximately.

Ms. GORDON. December.

Mr. VON RAAB. December. I will just write December.

This went out in December of 1985 which was our document that in effect withdrew 600 of the 797 that went out.

Mr. COLEMAN. Six hundred?

Mr. VON RAAB. I believe that totals down to 600.

Ms. GORDON. That is right.

Mr. COLEMAN. Six hundred of the 797.

Mr. VON RABB. That is what happened. In effect, we gave people permission to hire 797 additional people in June through November. And then in December when Gramm—Rudman came down, we sent out a second directive telling them that there were now 600 full-time equivalent positions removed. That is 600 of the 777 that is seen in the FY 86 budget as a reduction.

The other 177 were the additional amount in the continuing resolution.

Am I making sense?

Mr. COLEMAN. Yes, I understand.

Mr. VON RAAB. We were going to use it to buy the 797 that you see on those two spread sheets.

However, we only got halfway and then had to send out the notice to withdraw dollars equivalent to 600 people.

Mr. COLEMAN. OK.

CONFERENCE REPORT PROVISIONS

Let me ask you about the November 8, 1985, memorandum where the Comptroller discussed the possibility in my view, of getting around the floor contained in a conference report for the FY '86 Treasury Appropriations bill.

You stated that the memo was merely a reaction to Gramm—Rudman. However, the memorandum did not refer to Gramm-Rudman so far as I can see and Congress had not yet, passed Gramm-Rudman.

I am concerned about the fact that Customs appears, at least to me, to be looking for a way around the provisions contained in the conference report. Maybe the Comptroller and the legal counsel might want to comment on this with the Committee.

For example, what is meant by the statement in reference to the provision which says "we still have the flexibility to reprogram funds for specific reasons, such as special operations which may result in less funds available for salaries and therefore fewer than 14,041 FTEs."

Mr. VON RAAB. I am informed, Mr. Coleman, and we will be happy to back you, you know, if you want this more explicitly. I am told that this was an explanation to me of the state of affairs. I was told that if we wanted to, we thought there was sufficient flexibility to remain below the floor. But that was in effect, if you will, a gratuitous piece of advice to me. There was no policy, certainly from me, that we intended to remain below the floor. If anything, I think you will find that I was pushing very hard in the Customs Service to hire up against whatever authorities we had.

But I am told by my staff that the purpose in writing this memorandum was to inform me that if I had wanted to remain below the floor, they felt that there was authority to do that.

However, it is not an important point. To me maybe. To you, I understand that, because I had no intention of remaining below the floor.

Mr. COLEMAN. I guess the reason it is so important to the Committee is that there was an agreement, a compromise with the Senate conferees when we were in a conference on the issue of staffing levels for customs in specific areas of the nation. Our agreement was not to spell out where Customs is going to have to put all these people.

There were members from every region of the country that had the requirements for additional Customs personnel.

And so I offered this language as a floor, as a compromise rather than take away the discretionary authority of the agency to have flexibility that was the whole intent of that floor, to break an impasse in the conference, to say that we do not think you all have been doing your job in terms of hiring people that we have been giving you the money to hire. That was the view in the conference.

Mr. VON RAAB. I understand.

Mr. COLEMAN. As a compromise we tried the floor. And I have got to be honest with you, from this memorandum and what I have seen happen so far in the recommendations that keep coming from the Administration on Customs, my view is it is kind of stupid for us not to have done that.

Mr. VON RAAB. But let me explain here.

This was a memorandum to me telling me, in the opinion of a number of staff, that this issue, if I had wanted to, would not find me. I was taking the instructions, my marching orders from your legislation. The fact that someone gratuitously offered me this information does not have any reflection on my present policies.

Mr. COLEMAN. It was your intention then to meet the floor?

Mr. VON RAAB. Absolutely. That is why we were at 797, and we did not withdraw any hiring authority until we were absolutely certain that we were faced with definite reductions. That is absolutely the way it is.

STAFFING LEVELS

Mr. COLEMAN. Do you have a number that you can give us following Gramm-Rudman, of the present staffing level? I am not talking yet about the President's rescissions because we do not know if they will pass. I am not talking about the '87 budget and we do not know if it will pass.

Mr. VON RAAB. Right.

Mr. COLEMAN. The level as of today, we have taken into effect the Gramm-Rudman's March 1 cut.

Mr. VON RAAB. Yes.

Mr. COLEMAN.

Do you have the staffing level for today and what do you consider that a floor to mean in terms of the appropriation for your agency?

Mr. VON RAAB. Our staffing level today is 12,490 people.

Mr. COLEMAN. Are you authorized to go higher if you had the money? Are you authorized to go higher?

Mr. VON RAAB. You mean have I authorized it to go higher or——

Mr. COLEMAN. No, no. Are you by law authorized to have more?

Mr. VON RAAB. I will have to find out.

I am informed that we could go up to 13,264 people.

Mr. COLEMAN. That is exactly right.

Mr. VON RAAB. Right.

Mr. COLEMAN. That is the number I have.

Mr. VON RAAB. Right.

Mr. COLEMAN. That is because you have taken $20 million of the $30 million funding cut and placed it on personnel.

Mr. VON RAAB. That is correct.

Mr. COLEMAN [continuing]. A choice, by the way, that is either good or bad based upon the total dollar, but one that you felt you made as an administrator.

Mr. VON RAAB. I made that choice when I thought that the Gramm-Rudman cut was slightly lower; and, as a matter of fact, when the Gramm-Rudman cut was no longer predicted to be 3 percent but increased to 4.5 percent, I said, we will take no more cuts in personnel. Any additional cuts will come out of non-personnel areas.

Mr. COLEMAN. Okay.

Mr. VON RAAB. That is a further commitment on my part not to reduce personnel any further.

Mr. COLEMAN. Okay. Thank you. I appreciate your answer with that particular number.

The Conference Report also directed your office to report to the Committee on a quarterly basis regarding staffing levels and directed staffing positions in different geographical locations.

Have you been working on or have you submitted a report like that?

[Pause.]

Mr. VON RAAB. A preliminary compliance report was provided to your Committee on the 28th of February, and a detailed report will be provided quarterly.

Mr. COLEMAN. Quarterly. So we can expect that at the end of March?

Mr. VON RAAB. Is that what we were——

Ms. GORDON. Yes.

Mr. VON RAAB [continuing]. The end of March? April 15th.

Mr. COLEMAN. Quarterly?

Mr. VON RAAB. If you would like it the end of March, we will give it to you the end of March.

Mr. COLEMAN. Okay. Just as soon as you can get it. It will help us in trying to deal with this particular problem.

Mr. VON RAAB. The Treasury Department is used to dealing on April 15th.

Mr. COLEMAN. All right.

SOUTHWEST BORDER INITIATIVE

In all of these efforts in terms of the budget for 1987, have you attempted to meet the Southwest Border Initiative wherein there was a request for compliance placing most Customs personnel along the southwest border?

Mr. VON RAAB. Is this Senator Gramm's plan for 300 additional personnel on the southwest border?

Mr. COLEMAN. Senator DeConcini as I remember from the Conference.

Mr. ROYBAL. Yes.

Mr. VON RAAB. Once again, as you will see from that list of 797, a substantial number of those were directed to the southwest border. The good news is that the region that covers most of the southwest border moved more quickly in hiring those people against their increased authority, therefore, a lot of those men and women were hired.

I would be happy to provide you with these numbers on enforcement resources on the southwest border, but basically you will see that in '85 we had 783 inspectors, today we have 900; in '85, we had 151 agents, today we have 170; and in '85 we had 255 criminal investigators/patrol officers, today we have 275.

With the limited flexibility available we have tried to put greater numbers of additional resources onto the southwest border.

Would you like these?

Mr. COLEMAN. Joe, you might want to look at them first.

I don't want to take much longer, just if I could get this question in, Mr. Chairman.

You discussed your consolidation proposals again this morning in your statement. You said that "Customs wanted to streamline port and district operations, move to single shifts at airports, consolidate appraisement centers, reduce the number of hours at land ports and redesignate districts," I think as an overall thing.

MANAGEMENT INITIATIVES

As you well remember, probably longer than I have been a member of this particular Subcommittee, the Congress has not approved those and, in fact, it has blocked those efforts for very legitimate reasons.

Could you elaborate on this proposal and then tell us whether or not this is the same proposal that was made last year, and whether or not this Committee will ever get a detailed plan of that report? It is my understanding we never have.

Mr. VON RAAB. May I break it into the '86 and '87 pieces?

Mr. COLEMAN. Please.

Mr. SKEEN. Will the gentleman yield?

Mr. COLEMAN. Yes.

Mr. SKEEN. I think we asked for this same report, what, last year, as I understand it.

Mr. COLEMAN. Yes. The reason we had the language, Joe, if you will remember, everybody in this Committee asked, "Have you seen a report?", "Have you gotten a report?"; and everyone said, "No"; and we said, "Then, again, let's prohibit any such consolidation taking place until the Customs Service and the Department of the Treasury decide they are going to share it with us."

Mr. VON RAAB. Right. By the time we were ready to produce the report we knew that you were going to prohibit us from doing this. Therefore, we never finalized any report.

Mr. COLEMAN. Now, see, there you go anticipating something we were going to do before we actually did it. You did the same thing with staffing levels.

Mr. VON RAAB. No, we did with the 797. We put the 797 people out there without actually having locked up.

Mr. COLEMAN. So, you have never prepared a plan.

Mr. VON RAAB. We have never finally prepared a plan and I cannot tell you what the plan is for '87.

Mr. COLEMAN. If you are going to try to make these cuts in order to maintain the levels even that are in the present budget?

Mr. VON RAAB. That is correct.

Mr. COLEMAN. Are we going to have that plan soon?

Mr. VON RAAB. That is true; but what we did promise was that, as we developed the plan, we would work with the Members of Congress who were affected before we produced the plan. So we are a little bit in a chicken-and-egg problem.

We don't produce the plan until we consult with you. If we produce the plan ahead of consulting with you, then we preempt your opportunity to deal with it.

Mr. COLEMAN. I look forward to consultation with you or members of your staff on it.

Mr. VON RAAB. Right.

PAYMENT TO VENDORS

Mr. COLEMAN. There have been reports, Commissioner, that Customs personnel have been having some trouble getting fuel and service at airports because Customs has not paid its bills.

Are you aware of those reports?

Mr. VON RAAB. I am aware of the press reports.

Mr. COLEMAN. Is there a cash flow problem in your agency?

Mr. VON RAAB. No. The problem is a bureaucratic one.

In one case, some bills were run up in Puerto Rico that were payable to the Exxon or Esso subsidiary in Puerto Rico. When the bill came through the Customs system, the payment was made to the Houston office rather than the Puerto Rican office.

The Puerto Rican office refused to acknowledge that the payment had been made to Exxon, generally, and they were saying, "You did not pay it to Puerto Rico; therefore, we will not give you credit." Therefore, they cancelled our credit card temporarily in Puerto Rico. It had nothing to do with inability to pay.

Interestingly enough, by the way, we still have not gotten our money back from Houston so we have actually paid Exxon twice in order to get our credit back in Puerto Rico. That was the one issue.

What was the other one, Lynn?

Mr. ROSENBLATT. In San Diego with respect to the fuel bill.

Mr. VON RAAB. In San Diego, the issue was the unwillingness of a particular supplier to provide Government—Government, not Customs—anything on credit. The fact that we were a part of the Federal Government is what prevented us from getting credit.

We were caught in a catch-22 on a propeller repair because the Government could not pay the bill until we received the repaired propeller. We cannot pay for something until we receive it. The supplier said, "We will not give it to you until you pay us." It had nothing to do with availability of funds.

Mr. COLEMAN. It is not because we had not paid our bills?

Mr. VON RAAB. It is not because we had not paid our bills.

We have been working very hard on paying our vendors more quickly as there have been cases in which we have been slow in paying vendors; but in no cases has our slowness in payment resulted in the cancellation of our credit. The only time that happened was in Puerto Rico and that was a mixup.

Mr. COLEMAN. Last question. Are we going to get a vacancy report?

CUSTOMS VACANCIES

Mr. VON RAAB. We will provide you with a report on the number of positions that are unfilled today, if that is an acceptable date or the nearest pay period and, in addition, the theoretical authorized level.

However, under Gramm-Rudman, I am instructed that I, right now, have discretionary funds of less than $1 million.

Mr. COLEMAN. Make that a part of your report.

Mr. VON RAAB. Okay.

Mr. COLEMAN. No problem with me at all.

Mr. VON RAAB. If you know what I am saying.

Mr. COLEMAN. I understand.

Mr. VON RAAB. In other words, given the moneys that are available, we cannot hire more people than are already on board or committed, except for $1 million, and that will not get you many people.

Mr. COLEMAN. If you give us the vacancy report and tell us that as a matter of fact, I think that is perfectly valid.

Mr. VON RAAB. Fine. We will do that.

How quick can we turn around on that?

Ms. GORDON. We can——

Mr. SKEEN. Could we ask for that report which we asked for last year over a period of time so we can get some comparison as to what is happening?

Mr. VON RAAB. We will give it to you in two weeks.

Mr. COLEMAN. Two weeks.

Mr. VON RAAB. Yes. Is that acceptable?

Mr. COLEMAN. Okay. And you are going to get that report to me for FY '85 and '86?

Mr. VON RABB. We will give it to you in two weeks. If we feel that that is a difficult target, we will get back to Chairman Roybal and ask for some additional time.

I ask that, for the additional time to compare it to the subsequent one.

Mr. SKEEN. We need some base, if the gentleman would yield.

Mr. COLEMAN. Yes.

Mr. SKEEN. We would like to have some base established——

Mr. VON RAAB. I understand.

Mr. SKEEN [continuing]. So we know where we are going.

Mr. COLEMAN. Thank you, Mr. Chairman. I have some questions for the record if I may be allowed to submit them.

Mr. ROYBAL. Okay. You will be permitted to submit the questions for the record.

Mr. COLEMAN. Thank you, Mr. Chairman.

Mr. ROYBAL. The chair recognizes the gentleman from Michigan, Mr. Carr.

AIRPORTS OF ENTRY

Mr. CARR. I thank you, Mr. Chairman, members of the Committee; and must state for the record I am not a member of this particular Subcommittee and I do appreciate being allowed to ask a few questions.

I might qualify myself by saying I am a member of the Transportation Appropriations Subcommittee and, as well, the Subcommittee on Commerce, Justice, State and Judiciary; and I find frequently in the consideration in our jurisdiction, in Transportation and in law enforcement, we rub against some matters of questions to us in the Customs area.

I am grateful to you, Mr. Chairman, for allowing me to ask a question or two.

Mr. Commissioner, I have basically two lines of questions and I will try to be as brief as I can. The first involves the designation of airports in this country as U.S. Customs airports of entry and our inability, over an extended period of time, to get you to designate

the airport at Pontiac-Oakland in the northern Detroit suburbs as a U.S. Customs airport of entry.

I would like to engage you in a colloquy, if we can, about why that has not happened and what we can do about it: what I can do to support you or you can do to support me to make that happen.

By way of stating a record here, I point out to the members of both this Committee and whoever happens to read the record that the Pontiac-Oakland Airport is the largest general aviation field in the State of Michigan. Indeed, it is so busy that in certain months of the year it exceeds the number of operations of Detroit Metropolitan Airport.

Indeed, the FAA tells us, in my Committee, that for the last year which figures were available Pontiac-Oakland Airport was the 48th largest airport in the country from the standpoint of operations. It is an airport which is centered in the heart of America's auto-producing area with plants—General Motors plants, in particular—all the way to Pontiac: General Motors Truck and Coach, Pontiac Motor Division, the Warren Tech Center, et cetera.

As you know, our country has a treaty with Canada regarding automotive parts and the conveyance of automotive parts back and forth between Michigan and, well, all of the United States, but in this case principally Michigan and Canada, and yet we have been unable to get this airport designated as a U.S. Customs airport of entry.

I would just like to read into the record a very short list of airports in Michigan which already have that designation in addition to the rather sizeable Customs presence at Detroit Metropolitan airport: Alpena, Michigan; Battle Creek, Michigan; Bay City, Michigan; the Detroit City Airport, which is the old downtown airport; the Flint Airport; Grand Rapids Airport; Kalamazoo Airport; Marquette Airport; Menominee; Muskegon; Port Huron, two airports in Port Huron; Saginaw; and Sault Ste. Marie.

All of these airports are smaller, have fewer operations and fewer border crossings than the Pontiac Airport would have. The Pontiac Airport is, as I said, an area where there is a great deal of freight going back and forth, time-urgent auto parts among other things. It is a major base for corporate aviation in the southeastern Michigan area.

The County Executive, who happens to be a Republican, and I are working on a bipartisan basis to try to move this along if we can. I would like to see what I can do to gain your support in this effort.

Mr. VON RAAB. Well, I, of course, would be happy to discuss this. I understand that representatives of the Pontiac Airport have been discussing this matter with the Customs Service.

Customs makes a determination as to whether something will be granted port-of-entry status on the basis of international transactions, not domestic activity: largely based on the numbers of formal entries that would be submitted and other border-crossing activities.

I would be happy to discuss this with you as I may not be receiving the correct information, however I am informed at this point that those statistics are not sufficient to meet our criteria. It is quite possible that some of these other older airports would not

meet the criteria today, however we do not revoke designations. We concern ourselves only with prospective designations.

I also understand that we have made it known to these representatives that there is a possibility of having the Pontiac Airport become what is known as a reimbursable airport; but either there is not an interest in doing that or, for whatever reason their request has not come through.

Mr. CARR. Well, let me just respond on both counts.

Number one, it becomes a self-fulfilling prophecy, if you are not an airport of entry how can you demonstrate what kind of operations you would generate out of there? I think that is a bit of a fallacious way of approaching the problem.

I believe the airport can demonstrate and the airport manager and the leadership there—and I fly out of that airport—can demonstrate that if that airport were designated it would be among the most used in Michigan and, I think, would meet your criteria.

REIMBURSABLE AIRPORTS

Additionally, the reimbursable airport phenomenon is something that is beside me, Mr. Chairman: I cannot understand it. We have these airports of entry where we get cost reimbursement for individuals who want their airplanes inspected as they come and go; and yet for these reimbursable airports, we are asking the airport to pick up the reimbursement. That is not what it is all about.

If there is a user fee—and I will get onto that in just a minute—the fact is why should the airport be put in the middle? We are really trying to get——

Mr. VON RAAB. That is the law.

Mr. CARR. Well, I understand there were 4 airports in a particular——

Mr. VON RAAB. That, I believe, is 20, isn't it? 20.

Mr. CARR. Is there 20?

Well, I have a problem with that and I understand it is the law, but nonetheless you get to set what that figure is. I think you set it at $70,000.

Mr. VON RAAB. That is about what it costs Customs to run a single airport. I mean, at the lowest level of Customs' resources, it will cost us at least $70,000.

Mr. CARR. Well, if I might, Mr. Chairman, begging the indulgence of the Committee, ask you to supply, if you have not already asked that in your questioning, how you arrive at that $70,000 because I just don't think the Detroit metropolitan——

Mr. VON RAAB. One-and-half inspectors, is it, Gene?

Mr. ROSENBLATT. It is the inspector plus the moving cost to get the person into the administrative slot.

We will provide that for the record.

[The information follows:]

AIRPORT SERVICES COST ANALYSIS

The following is an analysis of the anticipated costs for providing Customs Services to designed airports under the provisions of Section 236 of the Trade and Tariff Act of 1984 (P.L. 98-573).

Cost category	Initial year	Subsequent years
Salaries (GS 9/5–6)	$24,712	$25,439
Retirement	1,730	1,780
Life insurance	154	160
Health insurance	1,300	1,300
Medicare	334	343
FICA	1,740	1,790
Uniforms	250	250
Administrative overhead (15 percent)	4,530	4,650
Relocations	18,000	3,600
Equipment and supplies (badge, weapons, radios, teminals, etc.)	6,200	1,000
Vehicles	5,100	5,100
Training	5,500	500
Vacation relief	3,800	4,200
Total cost	73,350	50,112

Mr. VON RAAB. Basically, it is the inspector, his or her salary and fringe benefits, and whatever equipment he or she needs to do this job.

Mr. CARR. Well, at that it would seem to me that you would probably base that person in a Detroit metro airport. It would seem to me that that would end up with Pontiac Airport subsidizing an extra person at Detroit metro and that is the way it would operate.

But I would be glad to discuss that with you a little further.

Mr. VON RAAB. Fine.

Mr. CARR. I do not want to hold the Committee's time up in being so gracious to allow me to ask a couple of questions.

CUSTOMS PROCESSING FEES

My last question, really, has to do with this schedule that I was shown about proposed Customs processing fees. I think you have probably seen that.

It says—it has a hole for commercial transactions. The fee is $25 up to—well, I guess there is one here for $90, and then there's other—there is mail and then there is foreign trade zone entry and other things. Commercial conveyances, we have vessels, trucks.

Then we get down here to private conveyances: yachts, boats, annual fee $100; aircraft, annual fee $200.

Mr. VON RAAB. Is that a working document?

Mr. ROSENBLATT. I don't think it is a working document.

Mr. VON RAAB. I believe that is an internal staff document that has been circulating at the Customs Service. It is prepared in order to provide examples of the types of user fees that might be suggested.

Mr. CARR. All right.

Mr. VON RAAB. That is not a proposal. It is not left to Customs Service. I am not disavowing it, but it is purely for illustrative purposes and it is not something that has been approved at my level or certainly at the departmental level.

Mr. CARR. To the extent that it is illustrative, I would like it to be illustrative of a community of opinion in the Congress that speaks for aviation and perhaps for recreational boating, while we are on the subject that it seems to me the Customs Service oper-

ates not as a particular benefit to those people who happen to live in areas where there are international boundaries, but actually operates to protect all U.S. citizens from a variety of contraband and illegal activity.

I mean, if I am coming—if I am bringing my plane back from a fishing trip in Canada and I want to go to Pontiac Airport and I cannot—I have to go to one of these other airports, principally Detroit metro—and incidentally, the FAA tells us that the Customs practice in this regard is running up a count in operations in the metropolitan FAA air space there, which is a detriment to safety—I have to land at Metro, then I go to Pontiac; and I don't do that for my benefit. I am not going through that rigmarole because I am happy with it and I am getting great benefit out of it. All of the American people are getting benefit because that certifies that I am not bringing in some kind of contraband. I think it is real insulting to even make the suggestion, for illustrative purposes, that I would pay a $200 annual fee for, maybe, one fishing trip to Canada. I don't think that is what the Customs Service is all about.

Mr. VON RAAB. I understand your philosophical reaction. There are fees that are paid today and it is a practice that we are recommending be extended. For example, a private aircraft landing in the United States today has to pay a $25 fee to be examined.

Mr. CARR. I already understand what is happening and I don't like that; but $200. I mean, suppose I take my Ultra Lite from Pontiac and fly over to Windsor and back. I mean, $200, that is 10 percent of the cost of my Ultra-Lite.

Mr. SKEEN. It depends on how much contraband you are getting in that ride. [Laughter.]

Mr. CARR. I mean, you could inspect me with binoculars as I do a low pass.

Mr. VON RAAB. I don't want to debate the individual fees because they are illustrative, but I will say that the $200 there, I am informed, is for a whole year of examination. So that is a volume discount. [Laughter].

Mr. CARR. Well, I would also point out that there is no fee right now, though. The fee, I think, let's get this straight——

Mr. ROSENBLATT. Is $25.

Mr. CARR. But that is in reconciliation, right? And that has not passed, right?

Mr. VON RAAB. No. We charge that fee now, over time.

Mr. CARR. That's over—okay. Let's make sure it is over time. Yes. Okay. All right.

Well, I thank you, Mr. Chairman.

I would like to work with you a little bit further on some of these matters that I raised.

I appreciate you and the members of the Committee indulging me.

Mr. ROYBAL. Thank you, Mr. Carr.

Mr. Lowery?

Mr. LOWERY. Thank you, Mr. Chairman.

SAN DIEGO PERSONNEL

Commissioner von Raab, to follow up on some of the questions this morning, you mentioned, in the San Diego sector, based on a report that you had just gotten a recommendation for nine additional staff: five in San Ysidro, but nine total for the region.

Would those all be in inspection?

Mr. VON RAAB. Yes.

Mr. LOWERY. When would they be on board? [Laughter.]

Mr. VON RAAB. Do we have any commitments now on those?

Mr. LOWERY. Yes, the nine additional inspectors for the San Diego district.

Mr. VON RAAB. 60 days.

Ms. GORDON. Yes. That's about right.

Mr. VON RAAB. Yes.

If we expedite the process, it is approximately 60 days to hire an inspector primarily because we have to do a complete background investigation and that takes some time.

Mr. LOWERY. This is going to be an expedited hiring? Am I correct?

Mr. VON RAAB. We now, I am told, have eight commitments for San Diego inspectors.

Mr. LOWERY. Eight of the nine that you mentioned.

Mr. VON RAAB. I am not sure.

Is that eight of the nine or is that——

Ms. GORDON. Yes, that is.

Mr. VON RAAB. Eight of the nine.

Just so you understand, we have started to maintain pools of available inspectors, import specialists, and other disciplines within the Customs Service so that we can respond a little more quickly, and in this case we——

Mr. LOWERY. So you have prequalified them for hiring.

Mr. VON RAAB [continuing]. Have a ready reserve, and I believe these are eight in the ready reserve; but I would rather get back to you tomorrow or the next day to give you more finite information.

Mr. LOWERY. As soon as possible, but you are telling me it should certainly be within——

Mr. VON RAAB. 60 days.

Mr. LOWERY [continuing]. 60 days.

[The information follows:]

INSPECTOR STAFFING AT THE SAN DIEGO DISTRICT

In fact, seven commitments for inspectors for the San Diego District have been made. This includes five for San Ysidro and two for Calexico. All selectees are pending a full field security investigation. Once the full field is completed, the selectee can be immediately brought on-board. It is estimated that these selectees should report on-board at the end of April. The positions at Tecate and Andrade (one each) required a separate recruiting action since only journeyman inspectors would be considered. A vacancy announcement for these two positions was published on March 14, 1986. Since no full field investigation is required for these two positions, placement can occur as soon as selections are made.

Mr. LOWERY. I have several questions now about Virginia Street, if we could pursue that for just a second, the commercial port of entry to San Diego; In fact, let me read to you a statement in this morning's paper out of San Diego.

Yesterday, Customs officials announced another kind of crackdown will begin on Monday, this time on haulers of textile materials. Al Rapaport, U.S. Customs Director in San Diego, said trucks from Mexico will be checked at Otay Mesa commercial inspection area to combat fraud in textile import quotas. The truck inspections are not expected to slow private passenger cars.

Several questions. First, does that mean that there will not be further inspections at Virginia Street, only at Otay Mesa? And if you could, review for us the status of Virginia and what——

Mr. VON RAAB. My guess is that if the San Diego District feels that increased inspections should be made of textile importations, that they would take place at both places; But I don't know the answer to that.

Mr. LOWERY. Well, could you give me the status of Virginia Street? If it is open for commercial traffic is it intending to stay open?

Mr. VON RAAB. My understanding is that we are not changing our staffing at Virginia Street.

Mr. LOWERY. If we could get a more definitive answer, what is happening there?

[Pause.]

Mr. VON RAAB. My understanding is that the Mexican officials are preparing to shift their commercial activities to the Otay Mesa facility.

Mr. LOWERY. All?

Mr. VON RAAB. Virtually all.

Mr. LOWERY. So this will be a decision on their side——

Mr. VON RAAB. Yes.

Mr. LOWERY [continuing]. Of the border. Well, they will no longer allow commercial traffic at Virginia Street.

Mr. VON RAAB. Well, it is very hard to predict what ultimately will happen with the Mexican authorities, but that is what they said at this meeting. If you take them at face value, within the next six months and maybe sooner commercial traffic will be shipped from Virginia Street to Otay Mesa.

As long as the Mexicans maintain commercial facilities at their side of the border, at Virginia Street, we will stand by to handle that as well.

Mr. LOWERY. Well, could you explain what this new textile crackdown is, how long it is expected to last?

Mr. VON RAAB. I cannot tell you exactly what it is in San Diego, but there is a continuing concern in the U.S. Customs Service about the illegal importations of textiles in violation of quotas and any other number of tariff and trade laws.

I would have to say is that for local management reasons the San Diego District feels that this may be taking place there and, therefore, is preparing to do more thorough inspections of the shipments as they arrive.

Mr. LOWERY. Are you diverting resources from drug interdiction, for instance, for this purpose?

Mr. VON RAAB. To inspect a shipment for textile infractions is really a supplementary activity to the contraband. The same people are used. They are looking to the same kinds of carriers.

I would not say that you are diverting resources. They are required to look for other things as well as drugs; but it is really the same work.

PACIFIC REGION

Mr. LOWERY. Okay. Shifting gears here to another issue, you commented earlier about the by-region reductions because of Gramm-Rudman and you cited a memo dated January 9th.

Mr. VON RAAB. Yes.

Mr. LOWERY. Right.

Mr. VON RAAB. I provided the attachment to the Committee.

Mr. LOWERY. Can you break this out a little more specifically? I think it is a 117 person reduction out of the Pacific region, which took the heaviest hit.

Mr. VON RAAB. Right. We informed the Pacific Region that they would have removed from their salaries and expense budget monies that would support 117 people and we left it up to the management of the Pacific Region as to how they would take these reductions.

Mr. LOWERY. Well, not all staffing levels are at the same level of salary. Do you take an average salary? How do you equate to the——

Mr. VON RAAB. Lynn, do you want to explain how we calculate that?

Mr. LOWERY. Well, if you could in 20 words or less.

Ms. GORDON. Actually, we use an average salary based on type of position.

Mr. LOWERY. Okay. It is not in your advantage or interest to take lower-income people or how does that work, or higher-income people?

Mr. VON RAAB. We have, in the past, frozen hiring. We felt that was not a good management approach because it removed the flexibility from local management. Therefore, we have changed to this approach and now we provide them with less funds for salaries. I don't know the answer.

Mr. LOWERY. I would be interested in, specifically, from what districts they came and specifically how many came out of enforcement and inspection.

Mr. VON RAAB. Well, this number is starting to slip, now, with the amounts that have been extracted from me for Seattle and San Diego. [Laughter.]

But we will let you know what this has meant.

Mr. LOWERY. I would be very interested.

Mr. VON RAAB. Right.

[The information follows:]

PACIFIC REGION GRAMM-RUDMAN-HOLLINGS FTE POSITION REDUCTION

Program	FTE prior to Gramm-Rudman	FTE after Gramm-Rudman	Difference
Intelligence	12	12	0
Enforcement support	32	32	0
Regional headquarters	25	25	0
Investigations	271	271	0

PACIFIC REGION GRAMM-RUDMAN-HOLLINGS FTE POSITION REDUCTION—Continued

Program	FTE prior to Gramm-Rudman	FTE after Gramm-Rudman	Difference
Patrol program	150	128	(22)
Inspection and control	1,206	1,160	(46)
Tariff and trade	508	499	(9)
District management SAC	135	101	(34)
Reimbursable	22	16	(6)
Total	2,361	2,244	(117)

MARINE PROGRAM

Mr. LOWERY. I am aware of your efforts in the east coast and in the Gulf in cooperation with the Coast Guard. What about in southern California waters? What is your enforcement involvement with the Coast Guard and how much of the drug traffic do you estimate is coming in by way of small craft?

Mr. ROSENBLATT. We believe there are some, just with respect to small aircraft.

Mr. LOWERY. Not aircraft. I am talking vessels.

Mr. ROSENBLATT. We believe there is some that is occurring from Mexico, particularly in the Baja up through San Diego. We have just shifted a marine module over there.

There were 22 vessels over there; 11 were outdated. We have already replaced nine of those. We intend to add another nine to have a complete marine module along with other vessels there.

One of the other things that we are looking at——

Mr. VON RAAB. He may not know what a marine module is.

Mr. ROSENBLATT. Do you know what a marine module consists of?

Mr. LOWERY. No.

Mr. ROSENBLATT. Okay. I am sorry.

A 53-foot up to about 60-foot radar platform. It is equipped with radar and can look out approximately eight to 20 miles, depending upon atmospheric conditions and other factors. We hope to be able to identify vessels that are coming up there, along with our P3s that are available for such missions when we have specific information that something like that may happen.

Over the next two to three years, we hope to establish in the Pacific region a command, control and communications intelligence center. This would combine our air and marine resources into one center and complement the marine interdiction along with air resources and, as I have just indicated, the marine module.

The marine module also includes two interceptor vessels. These are 30- to 40-foot performance vessels with speeds up to 50, 55 knots. This particular craft that was just sent over there came out of seizure. It is probably going to cost us approximately $150,000 to refurbish it, but it is a half a million dollar vessel to begin with.

Mr. LOWERY. Do you have summer activities going on in the Gulf Coast? And I am not talking about Florida; I am referring more to Texas and Louisiana and Alabama.

Mr. ROSENBLATT. We have just put a marine module in Galveston. We intend to put one in Brownsville this year.

Mr. LOWERY. With that all in place, do you expect to have the southern waters pretty well covered?

Mr. ROSENBLATT. Well, no. One of the successes of the southeast is due to having detection and specific intelligence. Where we have detection, these vessels, through a command, control and intelligence center, operate more effectively.

We also need dedicated aircraft that have the capability of down-looking radar to be able, once there is detection, whether we talk about P3s or any other detection type of equipment, picking up the information. The aircraft can only stay up so long. We have got to get that aircraft out there watching and feeding information into the command, control center in order to effectuate the arrest.

We feel that what is going on so long is that where we have got a likely target based on profile, we decided to take it over and take it off in the water. This is not totally effective law enforcement. By doing a marine module along with the command center, we want these vessels to go back to their intended location to optimize the enforcement activity.

Mr. COLEMAN. Will the gentleman yield?

Mr. LOWERY. Sure.

Mr. COLEMAN. That is exactly what the rescission says we are going to cut. We do not want to do that any more. Is that what the rescission is all about.

Mr. ROSENBLATT. We are working within our resources, as I have indicated to the Congressmen, to put the module into Brownsville. We have just put it into Galveston. We have part of the module as well as replacement vessels in the San Diego area. As other resources permit, we will expand on that.

Mr. COLEMAN. If I can just follow up quickly? I understand what we have tried to do, all of us. In the United States in terms of resources, tax dollars, all the rest, we have tried to deal with these issues that you have brought up. Finally, like pulling teeth, to get the dollars to do the very things that you are talking about, we get a rescission sent up here that says it is going to reduce funding for P3 aircraft equipment enhancements, and stop the purchase of Aerostat. That is your intention, right? That is what this Administration wants.

AIR PROGRAM RECISSION

Mr. VON RAAB. So we know exactly what we are talking about, the rescission in the air program is what you are talking about, $19.3 million; $9 million for the Southwest Aerostat, $4 million for some communication and monitoring equipment on P3As, $700,000 for certain additional equipment for P3As, $1.5 million for some electro-optics for the P3As, $2.3 million for a logistics inventory system for our air program, and $1.8 million to provide support if the special operations had taken up some of their responsibilities.

Mr. COLEMAN. Not just that. This rescission would reduce discretionary investigatory funds and slow down the acquisition of marine vessels.

That is what it says.

SALARIES AND EXPENSES RESCISSION

Mr. VON RAAB. The rescission on the S&E budget does reduce our marine operation, proposed marine operations by $1.3 million; that is correct.

As far as discretionary investigations, I do not know what that means.

Mr. COLEMAN. Why did we get the rescission? I guess that is the problem. I do not understand the rescission. Did you not meet the Gramm-Rudman target or what? What is it?

Mr. VON RAAB. I do not know the reasons for the rescission

Mr. COLEMAN. I thought that, thank you Mr. Lowery.

Mr. LOWERY. They are good questions. Although I am of the opposite party as my friend Mr. Coleman and though I am a fairly loyal Administration supporter, I share his frustration that this Administration has not put anywhere near the level of resources into the problem of drug interdiction in this country as they should. This is rapidly becoming an incredible problem in terms of what public statements are and what is actually happening with dollar funding.

It is a very, very frustrating process, and I understand that as a head of an agency you are given operating orders. Much of your orders are given by OMB, and I suspect that there is a great deal of frustration experienced within the Customs Service.

Mr. VON RAAB. I think you will find that one of the reasons for the rescission is the shift in emphasis by the Administration to investigations. OMB feels that certain interdictory activities are not cost-effective.

Mr. LOWERY. Well, I would like to see more of the evidence on that.

Because of this cut in the marine program, is that going to slow your timetable at all for its implementation, or are you able to——

Mr. VON RAAB. We are continuing to staff up and provide considerable additional equipment in the marine program.

Mr. LOWERY. But you are able to get a boat that has been confiscated as opposed to having to buy it outright?

Mr. VON RAAB. Yes. We are bringing on a lot of new equipment in the marine area. We are bringing on 40 new boats, about 20 of which are very fancy high-speed types and the other 20 are equally effective.

Mr. SKEEN. I thank the gentleman for yielding. Was that the reference that you made on the unobligated funds that we talked about earlier?

Mr. VON RAAB. Yes. We are buying a lot of that marine equipment and spending a lot of money in the marine area.

Our marine program is something to be proud of. I am not saying that the 1.3 would not add to it, but we are spending a lot of money in the marine area, millions and millions of dollars.

Mr. SKEEN. What is Customs. assessment of the value if you are trying to apply a cost benefit ratio, as opposed to the OMB assessment that will cut down on interdiction and increase investigations?

Mr. VON RAAB. I do not know what cost benefit means when you are talking about law enforcement. My feeling is that the marine interdiction program is one of considerable success and importance.

If you look at what is going on in Florida, we are bringing down a drug prevention curtain from Fort Pierce around to Marcus Island, probably the first case of a real curtain around a certain part of the United States.

I value it highly, and as I set my priorities on the funds that we have, we put a lot of our efforts into the marine area.

Mr. SKEEN. I commend you all for the efforts you are making in south Florida, but the rest of the Gulf, the southwest and the Pacific would likewise like to have a level of enforcement or interdiction that is similar.

You know, you can put your finger in one hole in the dyke, but those drugs are popping out in other holes all over the perimeter of the country, as you know better than the rest of us.

Mr. Chairman, I appreciate the Committee's indulgence. I have just one other question, and that relates to the possible user fee.

USER FEES

What would that be per automobile? I have seen reports of five dollars and some——

Mr. VON RAAB. There would be no charge for automobiles crossing the land borders.

Mr. SKEEN. And some suggested possibly a dollar.

Mr. VON RAAB. I am not saying that some staffer somewhere did not write a piece of paper with that on it, but that is not at all the intention.

Mr. SKEEN. Well, if it is reasonable and if there is a funding problem, and there are some assurances that it could be a user fee used for enforcement interdiction, I am not sure that the Congress would look at it that much askance.

But the concerns are if it is going to be used to go to the general treasury and the situation of the level of enforcement out of Customs is not going to get any better, I think there would be great resistance.

CALIFORNIA BORDER CROSSINGS

Just a final comment, and, Mr. Chairman, you have been very generous with time. I just want to read you in today's papers, or from yesterday's, and I gave you the article that says inspectors snarled traffic as the U.S. Customs Service continue for a second day its crackdown on drug smugglers, and a comment that tougher inspections and snarled traffic was reportedly limited to California's border crossings; it was business as usual in Texas and Arizona, Customs officials have said.

Mr. VON RAAB. I cannot account for statements of southern California reporters.

Mr. SKEEN. Well, I sometimes quarrel with the accuracy of the media myself, but I would hope that based upon statements you have made in terms of the interagency problems with INS and the level of staffing for keeping 12 gates open so that those waits are way down from two hours and closer to the 20-minute norm and

that the adding of additional staff is a good beginning. And I certainly do not want to sacrifice a tough level of enforcement and inspection, but the answer—I mean, you can have tough levels of enforcement, I believe, in inspection without seriously disrupting traffic flows at ports of entry. It means we have to have the proper resources, which means additional personnel committed to that effort. If we need to shift priorities to do that, lean as you are, as the agency has been, so be it. But I think you know full well—and I am like a broken record on the sentiments of my colleagues of both parties in all reaches of the country.

Thank you.

OPERATION EXODUS

Mr. ROYBAL. Mr. Akaka.

Mr. AKAKA. Thank you very much, Mr. Chairman.

This morning, the Chairman, Mr. Commissioner, praised the Service for their good record on drugs.

Mr. VON RAAB. You are not going to change that? [Laughter.]

Mr. AKAKA. And I understand you have a program that is called Operation Exodus.

Mr. VON RAAB. Right.

Mr. AKAKA. Can you describe that briefly for the Committee?

Mr. VON RAAB. Certainly. Under the Munitions Control Act, which is administered by the State Department, and the Export Administration Act, which is administered jointly by Customs and the Commerce Department, certain requirements are levied upon exporters of munitions under the Munitions Control Act and on certain high techology under the Export Administration Act. You must have licenses before you can export those types of items from the United States, and the licenses denote the country it is going to and are issued accordingly.

It became obvious about four or five years ago that the Russians and their allies were taking our technology in a wholesale way in violation of our laws, in addition many terrorist organizations, particularly countries like Libya and Iran, were acquiring munitions or attempting to acquire them.

As a result, the Treasury Department instructed the Customs Service to crack down on this illegal exportation of munitions and high technology. The Customs program, reponsible for this is called Operation Exodus.

We have taken specific numbers of inspectors—a larger number four years ago and a lesser number now because it is part of our general operating procedures, and specific numbers of agents which are our detectives, if you will—and devoted them specifically to this program.

Over the past four years, the Customs Service has been a very good deterrent to the overt exportation of munitions and critical technology. This has driven many of these efforts underground into what we call diversion in second countries.

The program in Customs now is to maintain its deterrent effort in the United States and to increase its efforts working with foreign law enforcement agencies to identify shipments that have left

the United States apparently legally but are being diverted, let us say, from Germany, then across the border into East Germany.

DRUG SMUGGLING PROBLEM

Mr. AKAKA. You cited two major problems the Service has. One is this one, the export of high tech, and another was drug smuggling, as two of their major problems.

Mr. VON RAAB. That is right.

Mr. AKAKA. Now, having described this Operation Exodus, is there a program for drug smuggling in the Service?

Mr. VON RAAB. You mean with a name like that?

Mr. AKAKA. Yes, with a name like that.

Mr. VON RAAB. No. The drug smuggling effort is contained virtually in everyone's job. We are really all doing that.

And Exodus, by the way, now is, too. It just so happens that when the program was begun there was a specific corps of men and women who were applying themselves to this task. Now that is generalized so that all of our inspectors and all of our agents are working on that at some time. There is not a specific name for the drug smuggling effort. Every inspector in Customs is working on drug smuggling. Every one of the agents is working on it either because he is investigating at marinas or because he is doing financial investigations.

Mr. AKAKA. This morning I mentioned this, and I mentioned the President's intent in interdicting and curbing drug smuggling into our country in hope that the Service might be able to put more emphasis in that area.

INNOVATIVE INSPECTIONAL TECHNIQUES

You also mentioned some, I think you called it new approaches in the Service, of which one was the cargo inspections.

Mr. VON RAAB. Yes.

Mr. AKAKA. Do you have a force that deals directly with that?

Mr. VON RAAB. Yes. We have, over the past several years, taken a different approach to the type of work our inspectors do. Five years ago when you came through Customs, you would have seen a line-up of men and women standing at counters waiting for you to come to them and asking you to open all your suitcases, whether you were a law-abiding member of Congress or whether you were some sleazy looking terrible type that had cocaine coming out of your pockets. We do not do that any more. Our inspectors are more highly trained; they are given instructions in how a smuggler is likely to act, and from where he or she is likely to come. The inspectors walk around within the airports; we call them rovers. They are looking for suspicious types of individuals.

Within the cargo areas, we call these same rovers members of contraband enforcement teams. And in many cases, for example, in Miami, a group of 12 men and women, Customs officers, will actually surround a plane as it is unloading because that is very high risk. For something that is a lower risk, they will examine the cargo in the warehouse to which it is shifted.

The special unit in the cargo area is called the CET team, contraband enforcement team, and in the airports they are called rovers.

Mr. AKAKA. Where would teams like that be stationed?

Mr. VON RAAB. They are stationed at the district.

Mr. AKAKA. Every district?

Mr. VON RAAB. If it is a large airport, such as Miami, they have their own double trailer from which they work.

On the land border force, they probably have an office within the port of entry building.

INTELLIGENCE OPERATION

Mr. AKAKA. How much has intelligence played in your success in the Service? What role do you work with on intelligence?

Mr. VON RAAB. Our estimate is that in the cocaine category seizures running from ten to a hundred kilograms, for example, shows that Customs prior information was received in about 12 percent of the cases.

Mr. AKAKA. So the rest of the cases were done by cold——

Mr. VON RAAB. Cold hits, as we call them.

The bigger the case, the more likely it is that we have some intelligence, but for the most part it is probably around ten to 15 percent in the cocaine area.

Mr. AKAKA. Well, let me finally say that I would say you are doing a good job with this, and I hope more emphasis is put on it.

ASSESSMENT TEAM

Let me finally ask one question. It was mentioned that an assessment team was sent to Seattle and Florida. I wondered why it was not sent to Hawaii.

Mr. VON RAAB. I believe it was sent to Seattle and San Diego.

Mr. AKAKA. San Diego, yes. You did not request they go to Hawaii.

Mr. VON RAAB. I did not. I am sure that they would have been happy to go to Hawaii.

Mr. AKAKA. An assessment team would help. I would like to have one come to Hawaii.

Mr. SKEEN. Will the gentleman yield?

Mr. AKAKA. Yes.

RENOVATION OF NEW YORK CUSTOM HOUSE

Mr. SKEEN. I would like to ask just one last question to the Commissioner. What is the status on the renovation of the Customs House in New York? Are you going to have a presence in that office——

Mr. VON RAAB. I do not know what the status is. The Customs Service, I understand, is tentatively on the books to have its regional offices moved into the Custom House if the Custom House, is not used as a New York Indian museum. That is a GSA question.

If it does not go to the use of the Indian museum, my understanding is the Customs Service and the bankruptcy courts will be given space.

Mr. VON RAAB. We have actually done drawings, and we would be prepared to move our regional offices into the New York Custom House.

By the way, I point out that one of the horrendous increases in our budget is an $8.5 million increase in the cost of our space in New York.

Mr. SKEEN. Is this leased space?

Mr. VON RAAB. Well, GSA.

Mr. VON RAAB. GSA leases it, but they are making a king's ransom on the increment that they are charging us.

Mr. SKEEN. We are going to ask about it when they come in.

Mr. VON RAAB. That sounds great.

Mr. SKEEN. Our office will get back to you, and we will see if we can negotiate it.

Thank you.

Mr. VON RAAB. Thank you.

FLORIDA TASK FORCE

Mr. ROYBAL. Mr. von Raab, this morning I joined in with Congressman Akaka in saying that you are doing a good job in Hawaii and that you are doing a good job under the circumstances with regard to the interdiction of narcotics. And I use the term "under the circumstances" because I do not think the job is good enough. Too much of that junk is coming into the United States and going into schools and everywhere else.

I am not worried about my children because they are grown up already. I am worried about yours.

Mr. VON RAAB. I am, too.

Mr. ROYBAL. I am also worried about my grandchildren and the children who are going to all these various schools throughout the United States who are constantly being threatened with someone selling drugs. These schoolchildren start with marijuana, and while many say you do not graduate from marijuana to something else, when you start somewhere you usually graduate to something else.

Mr. VON RAAB. Absolutely.

Mr. ROYBAL. I am interested in knowing the cost of the Florida task force, and how many personnel are involved in it. Do you have those figures?

Mr. VON RAAB. Yes, sir. Mr. Rosenblatt does.

Mr. ROYBAL. Will you provide them, please?

Mr. ROSENBLATT. For the Florida task force, we have 36 personnel assigned to that, along with DEA personnel. The cost for the personnel and benefits is $1.421 million, and other costs are $372,000 for a total of almost $1.8 million.

Mr. ROYBAL. $1.8 million, and it involves 36——

Mr. ROSENBLATT. Thirty-six people since the inception of the operation in '82.

Mr. ROYBAL. That is a lot of money, is it not?

Mr. ROSENBLATT. At one time we started with 58 personnel.

Mr. ROYBAL. I remember that.

Mr. ROSENBLATT. Okay.

Mr. ROYBAL. Now, are these 36 people living there, or are they still receiving per diem?

Mr. ROSENBLATT. They are living there. They have been living there since about March of 1983 when we phased out the TDY personnel.

Mr. ROYBAL. At one time they were on a per diem basis, and we talked about that in Committee here. But that has been phased out and they now live in Florida?

Mr. ROSENBLATT. In Florida.

Mr. ROYBAL. And the 36 people operate from their Florida base.

Mr. ROSENBLATT. That is correct.

CANINE ENFORCEMENT TEAMS

Mr. ROYBAL. When I was in Hawaii—again, I can only talk about those things that I have seen, and I do not know as much about this business as you gentlemen do—I saw the only dog being used for drug detection, and in Hawaii it did not even belong to Customs. It belonged to the Post Office. Customs did not have any.

So the next question is, what are we doing about the training of dogs? This morning I think Mr. von Raab said that there are approximately a hundred dogs plus maybe another 50 that would be trained and put into place. What is the situation?

Mr. VON RAAB. We have 93 canine enforcement officers. That basically means a man or a woman and a dog. We have 22 additional officers coming on board, 11 of whom are already in training and ten of whom will be in training by April 1st.

Mr. ROYBAL. Which means, then, there would be an additional 22 dogs?

Mr. VON RAAB. Yes, sir.

Mr. ROYBAL. All right.

Mr. VON RAAB. Just for your information, it takes 14 weeks to train a canine enforcement officer, 12 weeks to train the dog. I hope that does not mean our dogs are smarter. [Laughter.]

Mr. ROYBAL. Well, I was not going to say that.

Mr. VON RAAB. The program has 22 other vacancies which will be filled as we progress through the program, but our training facilities are necessarily limited. They are very specialized. They are in Front Royal.

The dollars that we will spend for this program is a total of $6,280,000 for this program in FY 1986. The training center itself is $893,000. The teams themselves cost $5,222,000.

My information indicates that we have one canine enforcement officer in the Honolulu area, and one individual is in training now at Front Royal and will be in Honolulu probably within a month or two.

Mr. ROYBAL. All right.

Where are these 93 officers that you now have in place located?

Mr. VON RAAB. I have them all here. It is a relatively long list.

Mr. ROYBAL. All right. Will you supply it for the record?

Mr. VON RAAB. Sure.

Mr. ROYBAL. If you supply that for the record, it will be sufficient.

Mr. VON RAAB. This is kind of a messy copy. If it is all right with you, we will give you a clean copy.

Mr. ROYBAL. Yes. I would appreciate that.

[The information follows:]

CANINE ENFORCEMENT OFFICER STAFFING (AS OF 02-21-1986)

PORTS	ON-BOARD	IN-TRAINING	SELECTED*
New York	23	0	2
Albany	1	0	0
Region	24	0	2
Boston	1	0	0
Buffalo	1	0	0
Philadephia	1	0	0
Region	3	0	0
Detroit	1	1	0
Chicago	0	2	1
Region	1	3	1
Dullas	1	0	0
Norfolk	1	0	0
Jacksonville	1	0	0
Miami	7	0	2
West Palm	1	0	0
San Juan	1	0	0
Region	12	1	2
New Orleans	3	1	0
Region	3	1	0
Houston	7	0	0
Dallas	3	0	0
Brownsville	1	0	1
Hidalgo	2	1	0
Laredo	1	0	0
El Paso	4	0	0
Columbus	0	0	0
Nogales	3	0	0
San Luis	0	0	0
Region	21	1	1
San Ysidro	8	3	0
Otay Mesa	0	0	3
Calexico	1	1	1
Los Angeles	11	0	0
San Francisco	4	0	0
Seattle	3	0	0
Anchorage	1	1	0
Honolulu	1	1	0
Region	29	5	4
National Total	93	11	10

* Will begin training by April 1, 1986

Mr. ROYBAL. Now, do you not think that if you were to get another 115—you have 115—that you could do a more effective——

Mr. VON RAAB. Pardon?

Mr. ROYBAL. Do you not think that if you got an additional 115 dogs that you could do a better job?

Mr. VON RAAB. The success of the dog program in the Customs Service is one of those hotly debated issues. Yes, I believe that the dog program is very successful, and we have basically been moving as many dogs through the training center and increasing our numbers as quickly as we can, given our facility. I do not mean the funding, but I mean the ability to train the dogs.

Whether we could use 115, I do not know. At some level you reach a saturation point.

Mr. ROYBAL. I just used that figure because I wanted to double the number that you have now. And that may be too many; I do not know.

But the point is that if you have all the dogs that can be used, you can do a better job.

Mr. VON RAAB. I agree. I think the dogs are a very effective tool. Whenever a request is made of me by a district for a dog, the request is always granted.

Mr. ROYBAL. Is there any money in this budget for additional dogs beyond the 22 that are coming?

Mr. VON RABB. No.

Mr. ROYBAL. All right. Now, are the 22 included in the budget that you now have, that you are presenting?

Mr. VON RABB. Yes, they are.

Mr. ROYBAL. In other words, you are asking in this budget for 22 more dogs.

Mr. VON RABB. The FY '86 budget allows for 22 more dogs.

Mr. ROYBAL. Yes.

Mr. VON RABB. And officers. The '87 budget does not include any above that 22.

Mr. ROYBAL. Yes. But I think we established the fact that the job could be done more efficiently if there were in fact more dogs—not necessarily twice as many, but more dogs than we have at the present time.

MEXICO AGREEMENT

Now, you made some reference to a Mexico agreement, and I did not understand what it was. What agreement was it that you were trying to reach?

Mr. VON RABB. The Mexican authorities and the United States Customs authorities meet on a regular basis. Two-and-a-half years ago we met in Mexico and came to certain agreements in which the U.S. Customs Service would assist Mexico in the enforcement of their contraband laws dealing with bringing certain kinds of equipment into Mexico. In return the Mexicans agreed to crack down in the drug interdiction area, including allowing—they did not agree to this, but they agreed to look at it in a positive way—U.S. Customs Service to fly into Mexico. We have a situation now in which planes can fly out of Mexico, cross our borders, either drop their drug loads from a short distance or by parachute and, in

some cases, actually do a touch-and-go landing, drop their load and return to Mexico. In this way, these people have been free to conduct this illicit traffic.

Mr. ROYBAL. Now, is it not true that the vast majority of people who traffic in narcotics by use of these airplanes are Americans, American pilots in the American planes?

Mr. VON RABB. I would say that is probably true. Yes.

Mr. ROYBAL. So then they actually originate in the United States and go to Mexico or Latin American or wherever they go, and then——

Mr. VON RABB. Not necessarily. The flight may not originate in the United States. The flight may originate in Mexico.

As a matter of fact, it probably does.

Mr. ROYBAL. I understand, but they have to get to Mexico somehow, and they did not walk.

Mr. VON RABB. They drove.

Mr. ROYBAL. Not the airplane—they did not.

Mr. VON RABB. No, the airplanes are always in Mexico. They are not left in the United States.

Mr. ROYBAL. Well, that was the next question I was going to ask. Where do they get these airplanes?

Mr. VON RABB. Well, some of them are stolen; some of them are purchased.

Mr. ROYBAL. But they are made here in the United States, are they not?

Mr. VON RABB. Well, I do not know of any airplanes manufactured in Mexico.

Mr. ROYBAL. Or any other country south of the border.

Mr. VON RABB. Right.

Well, actually Brazil makes airplanes, but I think these are American aircraft. The Americans have a very good airplane. The planes are housed in Mexico, which is what I would like to get in and look at.

Mr. ROYBAL. Now, the agreement that you want to reach with Mexico is just what, now?

Mr. VON RABB. The agreement that we wanted——

Mr. ROYBAL. You want our airplanes to go over there?

Mr. VON RABB. We wanted our planes to be able to fly into Mexican airspace in order to follow smugglers back into Mexico, and also in order to identify aircraft or landing areas on the ground. We proposed that Mexican officers ride in our aircraft so they could then report this information to Mexican authorities. If they so chose, we could land and allow them to get out of the aircraft, and they could make an arrest.

MEXICAN AIRCRAFT

Mr. ROYBAL. Was there any attempt to reach an agreement under which Americans would ride on Mexican planes?

Mr. VON RABB. We have said we would be prepared to do that. The Mexicans do not have new planes; they had some planes that we lent them.

Mr. ROYBAL. All right. But they must have some planes because they have a very small air force. They must have something somewhere.

Mr. VON RABB. A good number of the Mexican planes are being used to ferry drugs around Mexico and into the United States right now.

Mr. ROYBAL. All right.

Mr. VON RABB. The planes there are used probably illicitly.

Mr. ROYBAL. Was it your intent to use planes to interdict those Mexican planes that you say are carrying drugs within Mexico?

Mr. VON RABB. We can only actually physically interdict them if they are in the U.S.

So our activities in Mexico would be intelligence gathering.

Mr. ROYBAL. How do they claim sovereignty?

Mr. VON RABB. Well, you are not allowed to fly into Mexico unless you have the permission of the Mexican authorities.

Mr. ROYBAL. And persons are not allowed to fly into the United States without permission from the American authorities.

Mr. VON RABB. Well, the drug smugglers do not ask permission.

Mr. ROYBAL. No, no. I am talking about the fact that a Customs airplane could not do it either.

Mr. VON RAAB. That is correct.

Mr. ROYBAL. All right. Now, I understand that you have a situation where both countries are sovereign nations and each does not want aircraft to fly over its territory.

Mr. VON RAAB. The Mexicans have not requested permission to fly into the United States.

Mr. ROYBAL. I do not know what they are going to be doing, but suppose they had.

Mr. VON RAAB. If they were to ask and they were to put our officers aboard, we would be happy to make the——

Mr. ROYBAL. It seems to me that a reasonable approach to this could come to a fruitful conclusion. Now, I have also dealt with Mexican officials; they are not the easiest to deal with. But there have been instances where American delegations have succeeded based on the approach. The approach is the key to this whole thing. I do not know what approach was used in deciding what it is you want to accomplish. It seems to me that what you do want to accomplish would be beneficial for both the United States and Mexico.

Mr. VON RAAB. I believe that it would be, yes.

Mr. ROYBAL. All right. Then they have to be convinced of that. In some way the particular approach that is so important just has not been used.

Now, the reason for that, I do not know, and I am not here to dispute it except that we should keep trying.

Mr. VON RAAB. We are trying.

Mr. ROYBAL. Let us see what can be done in the future.

Mr. VON RAAB. We made another effort in Mexico on Tuesday of last week.

CUSTOMS FACILITY IN LOS ANGELES

Mr. ROYBAL. Very good.

Now, we are going to go into another subject matter, and that is that we were told by Alice Rigdon that the Customs facility in Terminal No. 2 at Los Angeles would be discontinued, effective sometime in April, or in the early part of May.

What is the situation there? Does the United States Customs Service have a conscious policy of fostering the interest of foreign flag carriers at the expense of U.S. international carriers? The end result is clearly that.

You know as well as I do, that the ones that are benefited are the foreign carriers, not our own carriers.

Mr. VON RAAB. I have not personally been involved, but I understand your staff has been discussing this issue. There is a concern over the closing down and the adverse impact it may have for the U.S. carriers.

The issue of what would happen in 1986 is still under discussion. There is no question but that the proposed FY 1987 budget will not allow us to continue to serve Satellite 2.

Mr. ROYBAL. Yes, but why do you choose on Los Angeles and why do you favor foreign flag carriers?

Mr. VON RAAB. I think you will find the actions that will result from the 1987 budget will not be limited to Los Angeles.

Mr. ROYBAL. Sure, but I remember a time when we were told use Satellite No. 5 in Los Angeles. Remember that?

Mr. VON RAAB. I remember Satellite 5.

Mr. ROYBAL. I remember that particular one.

Mr. VON RAAB. Western Airlines has spent a lot of money in Satellite 5 and has actually made the facility much more efficient and useful to Customs. Unfortunately that has not been done with Satellite 2.

CUSTOMS AGREEMENT WITH AIRLINES

Mr. ROYBAL. My understanding is that the airlines have entered into an agreement with Customs, and that Customs has not lived up to that agreement.

Now, I have a copy of that agreement here, and I have read it. I think the agreement is pretty clear.

It says, in part, "Customs agrees to provide international inspection services as Terminal No. 2 for a basic core period of not less than eight hours per day in the same manner as provided now." There is no time period in that, but it does go on to say that "Customs may clear international flights arriving after midnight at only one terminal and in such event, the specific terminal shall be designated by Customs." If these planes come in after midnight they may not be serviced at Satellite No. 2, but they would be serviced under this agreement. It says nothing about closing it.

Now, does not Customs live up to its agreements?

Mr. VON RAAB. The agreement required, among other things, that U.S. Customs could withdraw if Satellite 2 had a significant reduction in work. Pan American did not provide an acceptably renovated facility. They have done neither of those things.

In March of '84, there were over a thousand people coming through that Satellite. In February of '86, that count was down to 435. A good number of these flights have gone into the Bradley Me-

morial Terminal, and our inspectors' productivity has just been cut in half. That is the problem.

Mr. ROYBAL. Sure, but you will continue to benefit the foreign carriers. They will not have to stop at one place and let out their passengers and their luggage and then depart from another place. That is an expensive operation.

Mr. VON RAAB. Mr. Chairman, I understand that, and it concerns me that this is not helpful to U.S. carriers; but at the same time, we do have a situation in which U.S. Customs officers are now doing half of the work at the same amount of cost than they could be doing in the Bradley Terminal.

Mr. ROYBAL. Now, when does that period end? If you say the number of flights has decreased, that must have been during the winter months.

Mr. VON RAAB. Yes, correct.

Mr. ROYBAL. All right.

Now spring is coming then summer. Do you not think those flights will increase?

Mr. VON RAAB. I do not know. United has also left that terminal, therefore the number of airlines going into the terminal has been reduced. I do not have data that attempts to predict what is going to happen this summer.

Mr. ROYBAL. Well, I suppose that the one thing to do is to look into this very carefully.

Mr. VON RAAB. I promise to do that.

Mr. ROYBAL. Look to see if it is true, number one, that these airlines are not living up to this agreement.

Mr. VON RAAB. Fine.

Mr. ROYBAL. And find out for sure whether or not Customs is living up to this agreement.

The way I read it Customs is not living up to this agreement. But I am willing to be convinced that Customs is living up to its agreement and that those nasty airlines are the ones that are violating it.

Mr. VON RAAB. Fine.

Mr. ROYBAL. When we look at the facts, that the area itself, the City of Los Angeles, is going to get even larger, and that we are going to have more airplanes coming in and more traffic, to discontinue any satellite that was built for some purpose, I think, is an exercise of—well, I do not want to say discriminating against the——

Mr. VON RAAB. I understand.

The good news in this is that Bradley Terminal's numbers are way up. For example, in the same period, when the SAT 2 went from a thousand down to 400, Bradley had gone from a thousand to 5,000.

Mr. ROYBAL. Have you been at the Bradley center during the busy hours?

Mr. VON RAAB. Yes, I have.

Mr. ROYBAL. And it seems to me that——

Mr. VON RAAB. That is where these inspectors are being put, into the Bradley Terminal.

Mr. ROYBAL. You mean they are being taken away from No. 2?

Mr. VON RAAB. That is correct.

So, they are saying in Los Angeles. It is just a question of where in Los Angeles.

Mr. ROYBAL. Where did you read in this agreement that Pan American had defaulted?

Mr. VON RAAB. My understanding is—and these are just by notes, I do not have the agreement in front of me—but that U.S. Customs could withdraw if SAT 2 had a significant reduction of work and if Pan Am did not provide an acceptably renovated facility by September of '86.

Mr. ROYBAL. You know, we can go on and on, I do not agree with you and you are not agreeing with me. We can go on for the rest of the afternoon and accomplish nothing.

MEETING WITH AIRLINE REPRESENTATIVES

Would you be agreeable to meeting with one or two representatives——

Mr. VON RAAB. Absolutely.

Mr. ROYBAL [continuing]. Of the airlines?

Mr. VON RAAB. Sure.

Mr. ROYBAL. The Director of the airport and a committee of no more than five people, let us say, you and the two of us.

Mr. VON RAAB. And Alice Rigdon.

Mr. ROYBAL. Yes. And that will make seven or eight to meet and discuss this matter thoroughly.

Mr. VON RAAB. Absolutely.

Our concern, in these times of limited resources, is to make sure that our inspectors are used effectively.

Mr. ROYBAL. Sure.

But Customs is a big department that can use a lot of efficiency elsewhere without reducing its staffing in a city that has such great potential.

You know, I think I have a few ideas where savings can be made.

Mr. VON RAAB. I am sure of that. But think what these inspectors can do in El Paso. [Laughter.]

Mr. ROYBAL. They are not being asked to go to El Paso. As long as they are in Los Angeles, I think they would like to stay there.

Mr. VON RAAB. They are staying in Los Angeles. They are just going to a different terminal.

Mr. ROYBAL. So they are not going any place else, they are going to a different terminal as of this moment. So they are not going to El Paso or any place else.

The matter of disagreement is the closing of Terminal No. 2 and favoring the foreign flag carriers.

Mr. VON RAAB. The other answer would be to have Pan American operate out of Bradley Terminal.

Mr. ROYBAL. But I thought you liked Los Angeles.

Mr. VON RAAB. I like Los Angeles very much.

Mr. ROYBAL. And you do not like Pan American and——

Mr. VON RAAB. Not my style. [Laughter.]

Mr. ROYBAL. But you do not have to dislike them to the point that you have to discontinue all services.

Mr. VON RAAB. I understand. We will certainly meet with this group.

Mr. ROYBAL. All right.

Leaving all kidding aside, I think the thing to do is to see if we cannot get that group and sit down and talk.

Would Los Angeles be the proper place or can we ask them to come here?

Mr. VON RAAB. I would be happy to go either place. Obviously it is easier for me if they come here.

Mr. ROYBAL. All right. We will see if we can work something out and work it within the next few days.

Mr. VON RAAB. Good.

Mr. ROYBAL. All right?

Mr. VON RAAB. Good.

TEXTILE IMPORTATIONS

Mr. ROYBAL. Now, what is Customs Directive 3500–07?

Mr. VON RAAB. I do not know. [Laughter.]

I believe that is a modification of the—is that the high low? I believe that is a modification of the informal entry directive respecting textiles, which will require live entries on any textile importations, even those under $250, unless they are marked as samples.

Mr. ROYBAL. Sure. How is Customs going to handle the extra examination of documents?

Mr. VON RAAB. These documents are examined under any circumstances if they are textiles. The documents will be more complete.

Mr. ROYBAL. Sure. But if they are samples, they will not be examined?

Mr. VON RAAB. The samples—If something is marked a sample, we will not examine it. We believe that will constitute about 90 percent of these. I think that takes a big number of these out of the problem area.

WEST COAST PERSONNEL

Mr. ROYBAL. Now the West Coast ports are already short of personnel. You do not intend to decrease personnel on the West Coast, do you?

Mr. VON RAAB. Not any lower than they are now.

Mr. ROYBAL. But you will keep them placed in those positions that this Committee recommended in the law itself?

Mr. VON RAAB. In Los Angeles, I believe we have met and are operating at the level at which you requested us to operate. Is that correct?

Mr. COLEMAN. That is the whole point.

Mr. VON RAAB. The way this plays out, as I understand it, originally we thought that the recommendation of this Committee was going to be 50.

Mr. ROYBAL. Fifty additional.

Mr. VON RAAB. Yes, 50 additional.

Mr. ROYBAL. All right.

Mr. VON RAAB. And we put in a number equal to 50. Subsequently it increased to 100 in Los Angeles. Is that correct?

Ms. GORDON. Yes.

Mr. VON RAAB. And we will not be able to go up to 100 but we will stick to the original 50 that we put out.

Mr. ROYBAL. All right.

But that would also mean that Seattle, El Paso, San Diego and Hawaii would also get their——

Mr. VON RAAB. No. I believe the numbers in Seattle were 18 vacancies that we were going to fill. And, Congressman Lowery, I forget what the number was. Was it around eight that we were going to—nine.

And in Hawaii we are not putting any additional people.

Mr. ROYBAL. Did you hear that, Mr. Akaka?

Mr. AKAKA. I heard that last year.

Mr. COLEMAN. And what is the status in El Paso?

Mr. VON RAAB. We are giving you all these inspectors and satellites too.

[Laughter.]

I am going to see what the numbers will be.

We had 178 onboard in June, 1985 and we are now at 205. Is that where it is going to stay?

Ms. GORDON. Depending on what the Regional Commissioners elect to do with these positions.

Mr. VON RAAB. 27 additional people have been put onboard since June of '85. The Regional Commissioner may have some flexibility to put some more in there but that is where we are right now.

Mr. ROYBAL. Mr. Commissioner, will you be in town all of next week?

Mr. VON RAAB. Yes, sir.

Mr. ROYBAL. Because we would like to discuss with you the effect that the closing of Satellite No. 2 would have——

Mr. VON RAAB. Yes, I would be happy to.

Mr. ROYBAL [continuing]. Not only on Los Angeles but what it would have on the airlines that are affected and see if we can come up with some solution of some kind.

Mr. VON RAAB. I would be happy to do that.

Mr. ROYBAL. All right. I thank you very much.

Are there any other questions?

DEA AND CUSTOMS JURISDICTION

Mr. AKAKA. Yes, one more question.

In a case of an investigation where both, as an example, DEA and Customs are working on this.

Who has the leadership?

Mr. VON RAAB. If it is a narcotics investigation, DEA is the leader.

Mr. AKAKA. All right.

Thank you, Mr. Chairman.

Mr. ROYBAL. Mr. von Raab, I have here some questions that have been submitted by members of the Committee. I would appreciate it if you would answer these questions——

Mr. VON RAAB. Absolutely.

Mr. ROYBAL [continuing]. As soon as possible.

Mr. VON RAAB. All right.

Mr. ROYBAL. All right.

Then the Committee is in adjournment on this portion of the budget.

[Questions for the record, the answers thereto and the justifications follow:]

MR. ROYBAL: Is it not true that the Federal Aviation Administration (FAA) has general responsibility for security at airports and has already issued similar security regulations?

MR. VON RAAB: Although the FAA does have overall responsibility for security at airports, security of international passengers and baggage during Federal inspection rests with the Customs Service. Regulations governing background checks for employees hired after November 1, 1984 were issued by FAA on December 14, 1985. However, the FAA regulations do not provide for limited access to Customs security areas nor for granting access to those areas.

MR. ROYBAL: Has legislation been submitted by the Department of Transportation/FAA that will make your identification process a duplicative and burdensome process for the airlines and airports?

MR. VON RAAB: The Customs Service has been in regular contact with the FAA security office before and after issuing the new Customs regulations. The regulations are designed to complement the FAA system, and therefore should not be overly burdensome to the airlines or airports. In addition, during the first week of implementation, our security measures resulted in the extradition of an airport employee because of an outstanding murder warrant.

MR. ROYBAL: Were the affected parties (airlines, airports and other government agencies) given an opportunity to comment and work with the agency on this regulation? If not, why?

MR. VON RAAB: In light of the growing terrorist threat, the regulations were adopted on an emergency interim basis on March 5, 1986, and comments may be submitted until April 4, 1986. We are working closely with the industry to minimize any inconvenience while, at the same time, providing safe and secure areas in which persons may enter the United States.

MR. ROYBAL: Will the parties affected have sufficient lead time to fingerprint and complete background checks by the time the regulation is effective?

MR. VON RAAB: Customs is working closely with affected parties in an attempt to provide sufficient lead time to complete background checks and fingerprinting. Temporary seals and identification cards have been issued in cases where a need for more time has been demonstrated.

MR. ROYBAL: Computer processing of air cargo inventory and associated data necessary for Customs entry is under intensive study at a number of U.S. gateway airports where automated systems for import and export processing are being developed. I am concerned that the multiple approaches to automation at various gateways will lead to conflicts, duplication of efforts, and added costs alike for users and the Customs Service.

MR. VON RAAB: The Customs Service views the Automated Manifest System as a means of speeding the flow of cargo through an electronic release notification system. In addition, paperwork will be reduced for both carriers and Customs by eliminating the paper manifest and decreasing the number of hard copy discrepancy reports and In-Bond documents. Importers, brokers, carriers, port authority, other government agencies, and Customs should all realize cost benefits from greater control, better communication, elimination of labor intensive paper handling, and shorter dwell time for importer cargo.

Conflicts, duplication of effort, and added cost have been a major concern of Customs also. The basic design of the Automated Commercial System (ACS) addresses these concerns.

- Customs has followed a policy of targeted groups such as NCITD, NCHBFF, AARR, AAPA, and IATA/ATA to speak for the industry in developing interface standards

- Customs has provided a draft policy statement that provides a clear delineation of authority, responsibility, and obligation to serve as a guidepost for external systems at gateway airports

- Customs furnishes technical support to trade entities - carriers, brokers, importers, port authority, and service bureaus to insure that their system design is in harmony with the overall concepts of ACS and, at the technical level, their system is compatible with ours

- All users must follow uniform standards for communication

- All users must transmit messages in accordance with published standards which provide basic information about the system, flowcharts, and details concerning the data elements and record layouts

° Each system will use shared data to achieve its purpose:

- USCS will use the data to carry out its function of enforcing Customs and other laws

- Port authorities will use it for functions such as accounting, billing, vessel scheduling, waterways improvement, cargo traffic control, and inter-community information exchange

MR. ROYBAL: Obviously, there is a need for a common discipline among gateway computer processing systems, and I am, therefore, requesting for the record written Customs guidelines which address standards for communications interconnections among members of the port community systems. These guidelines should cover the design parameters for a large-scale Customs computer-based information and teleprocessing system for the balance of this decade in order to assure a uniform national Customs automated air cargo system, a system which deals adequately with the interaction of local port authorities, forwarders, brokers, shippers and airlines in the processing of exports and imports.

MR. VON RAAB: Customs has five major documents that provide guidelines for communications between itself and outside participants in ACS.

- Automated Commercial Systems
- Draft Policy Statement (currently under revision)
- Customs Automated Manifest Interface Requirements (CAMIR)
- Customs Automated Air Cargo Declaration (CAACD - under development)
- Automated Broker Interface Requirements Document

For several years, Customs has been participating in prototype carrier and port authority based cargo delivery systems as a means of alleviating the labor intensive function of reconciling imported cargo inventories. However, we realized that they were only a partial solution to our problems and were not designed to interface with other automated programs we are developing. The proliferation of independent systems brought home two points; first, within a very few years, we would be dealing with a multitude of individual manifest systems; and second, each would require different data and formats for Customs input and would be unable to communicate with Customs input and would be unable to communicate with Customs or other automated systems. Customs also tested several stand-alone internal manifest systems. None fully satisfied our needs or those of the importing community.

The conclusion drawn from these experiences was clear; to operate most effectively and efficiently, Customs needed one nationwide manifest system that could interact with both other Customs automated systems and interface with carrier, port authority, and service center systems. We began to develop a multi-modal cargo inventory and release system based in the Customs computer using the following concepts:

- The basic design concept of ACS is that there will be ONE NATIONAL system and that the official reconciliation of the manifest will occur in the Customs computer

- Industry users will have the option of direct interface, thereby, insuring uniformity of communications requirements on a national level, or interfacing through port authority systems

- Customs will communicate air waybill status messages to all involved parties: carriers, brokers, and port authority on a computer-to-computer basis

MR. ROYBAL: Additionally, please detail the costs involved, enforcement and facilitation criteria, interfacing needs with the air cargo community and inter-airport computer compatibility considerations previously noted. In examining Customs needs and requirements for air cargo computerization, do not neglect to examine air cargo computerized systems operations in other countries, for example, in England, France and Japan. It may be helpful in the formation of your guidelines to see how other countries were able to resolve some of the same problems. Finally, attention should be given in your guidelines to the possibility in the future of inter-country Customs computer interfacing systems.

MR. VON RAAB: Customs is in somewhat of a difficult position when using other foreign country systems because of the wide variances in legal requirements. However, in the past, staff members have studied these systems both directly and through the auspices of international organizations and adopted some of their design features. The ACP 80 System in England is one example.

Under current law and regulation, participation in the automated system is voluntary, therefore, Customs is not imposing a cost burden on any participant. Carriers have done cost/benefit analyses and recognize the advantages, however, we are not aware of their cost outlays.

The enforcement and facilitation information must reside in the Customs computer to protect the integrity of the data, insure privacy, and prevent circumvention of our enforcement mission.

The development of a Customs based manifest system does not preclude the need for or compete with a port authority or carrier system. The systems will complement rather than replace each other. Generally, port authority and carrier systems will input the inward cargo data and Customs will input the entry and release data. Each will realize multiple benefits from the other's efforts.

MR. ROYBAL: Finally, please detail if there are problems in developing these guidelines.

MR. VON RAAB: In our efforts to develop standard guidelines for use throughout the Customs Service to interface with brokers, carriers, importers and port authorities, we have conferred at every step of the way with representatives from the various trade entities.

We do not feel that there are any extraordinary problems associated with establishing our guidelines. There are always problems associated with building any system, but none that we refuse to address or find insolvable.

Mr. Roybal has asked the following questions for the City of Los Angeles Department of Airports.

MR. ROYBAL: If JFK Airport is entitled to five (5) separate Customs facilities, why shouldn't Los Angeles International Airport have three?

MR. VON RAAB: Unlike Los Angeles, JFK Airport has no single facility capable of processing the entire passenger volume from any two of the five terminals where we have operations.

Each of the five separate terminals in JFK, if viewed as separate airports, would rank in the top twelve airports for international passenger arrivals. The least active terminal in JFK has four times the annual volume in SAT 2.

Even so, we are reluctant to duplicate our resources at JFK in five terminals. We do so only because no single facility could absorb the entire current volume and allow us to achieve the economies of scale we seek in LAX.

If we process the current and reasonably projected passenger volumes with current arrival times from SAT 2 in Bradley International Terminal, we will save resources and still provide comparable service.

MR. ROYBAL: Has the United States Customs Service fully considered the anti-competitive position it is placing Northwest Orient Airlines and Pan American?

MR. VON RAAB: We do not perceive such damaging results in handling arrivals at Bradley International Terminal as the carriers have claimed. I have discussed our review of these claims at length in reply to another of the questions regarding Terminal 2.

MR. ROYBAL: Does the United States Customs Service have a conscious policy of fostering the interest of foreign flag carriers at the expense of U. S. international carriers?

MR. VON RAAB: The U. S. Customs Service has no such policy. To the best of our knowledge, the U. S. Government has no policy that fosters one specific carrier over another. We agree that most foreign governments offer direct support to a designated national flag carrier. As a result, U. S. carriers can find themselves in substandard facilities. Space in Toronto Terminal I in Canada is allotted to U. S. carriers, while Air Canada, a Crown corporation, is given the newer Terminal 2. Preferred terminal treatment is present in Charles DeGaulle Airport for Air France and in Heathrow for British Airways. But in Heathrow, although BA has a better departures terminal, they must arrive at the international terminal with all other carriers.

MR. ROYBAL: Why has the United States Customs Service continued to meet with the Department of Airports and the airlines relative to the new terminal facilities when their intentions were apparently to not staff Terminal No. 2 facility? Is this not "bad faith" of the highest order?

MR. VON RAAB: The agreement between the U. S. Customs Service and one carrier in SAT 2 requires Customs to keep that carrier "fully apprised of the specifications to be met in performing the necessary construction or modification." U. S. Customs is performing in complete accordance with the agreement.

The carrier, in turn, was required by the agreement "to complete all renovations and/or new construction for the Federal Inspection Area by September 1, 1986." This construction only received funding approval in December 1985. No construction has begun and the current target date for delivery is January 1, 1988. The Customs Service has expressed its concerns about the carrier's failure to make a substantive beginning on renovations that would indicate a willingness to meet the agreed-upon date.

We have also discussed the substantial drop in the number of international passengers cleared at SAT 2.

We have performed all requirements of the agreement in good faith. These requirements are specified in paragraphs 3A, 4, and 6 in the agreement attached.

MR. ROYBAL: Why is Customs now unilaterally abrogating its Agreement with the airlines operating in Terminal No. 2?

MR. VON RAAB: The agreement was to continue until July 3, 1990 unless overtaken by events. Such events have been a substantial erosion in volume, the failure to renovate the facility, and the reductions of appropriations by P. L. 99-177. The effect of these events is that U. S. Customs is no longer obligated to remain in SAT 2. We are not unilaterally abrogating the agreement. Rather, we are adhering to all of its specifics.

MR. ROYBAL: Why does Customs not use and develop a clearance procedure more akin to what is common throughout the world, e.g., the red/green dual channel processing system common in Europe?

MR. VON RAAB: The United States has a different border situation than most of Europe. Our land border frontier arrivals are quite distinct from the traffic that arrives by air.

All of the Federal Inspection Service agencies view the airports as the highest threat to our missions. APHIS intercepts more infested material in air traffic than any other mode. INS views airports as higher risk for the more sophisticated illegal aliens. U. S. Customs sees air connections as the fastest, most direct route for narcotics smuggling by professional couriers. These are a few broad reasons for preferring the U. S. systems over the dual channel European style red/green processing.

Customs believes that facilitation is a natural result of working smarter with better selectivity. The Los Angeles District reports that their management procedures have reduced

the number of persons necessary for passenger processing, for a $700,000 reduction in overtime costs and faster processing of arriving passengers.

MR. ROYBAL: If Congress has indicated that Customs provide necessary manpower to accommodate the international arrivals of United States carriers, why are they taking action to close the United States Customs Service facility in Terminal No. 2 to the distinct disadvantage of our United States carriers?

MR. VON RAAB: We are aware of the direction of Congress in our appropriations statute, which has been modified by the Gramm-Rudman-Hollings law imposing major funding cuts this fiscal year.

Congress passed the Appropriation Statute based on a certain funding level, which was subsequently reduced by P. L. 99-177. It is impossible to comply with all the requirements of how the larger appropriation should have been spent.

The recent legislation pursues the overriding concerns of deficit reduction. By removing Customs from SAT 2 we are not only adhering to the terms of the agreement. We are also following Congressional direction by withdrawing from costly redundant operations and achieving savings and efficiencies of scale in TBIT.

We would like to add one final comment that is relevant to all of your LAX passenger processing questions and concerns. Our approach to passenger processing at all locations must be viewed from the perspective of increased workload and decreasing resources. From 1976 to 1985, Customs total manpower decreased by 338 positions (FTE). Yet incoming air passengers increased by over 12.6 million, a 68 percent increase. This makes it imperative that we operate with the greatest possible efficiency, which means centralized processing facilities, particularly at LAX. However, it should be emphasized strongly that with the implementation of a full-faceted, comprehensive Customs user fee legislative package, Customs could exercise far more flexibility in filling specific service requests responding to airlines' vested interests.

MR. HOYER: Customs inspectors for port and airport facilities in Maryland have fallen from 78 in 1982 to 44 today. Last year the FY 1986 Continuing Resolution added 20 inspectors/clerks to this amount for Baltimore. How does the Gramm-Rudman-Hollings cut in positions affect these 20 new positions? Are these new positions provided in your FY 1987 budget?

MR. VON RAAB: As a result of the regional consolidations of September 1982, the Baltimore District came under the supervision of the Boston Regional Headquarters. Regional management conducted a workload study and recommended a maximum level of 49 inspector/clerk positions for the district. Since then the authorized level for the district has increased to 55. With emphasis being placed on inspectional operations, there is every reason to anticipate that on-board staffing of 55 will be accomplished during FY 1986. Unfortunately, the Gramm-Rudman-Hollings reductions prevented Customs from complying with many of the staffing directives in the FY 1986 Continuing Resolution. Moreover, the FY 1987 budget request also calls for substantial staffing reductions and it is expected that funding for FY 1987 will be no higher than the FY 1986 operating level.

MR. HOYER: I commend you on your work on automation and your improvements in that area. As you know, many ports will or have already begun automating their Port Cargo Clearance systems. I have received complaints over the less than clear guidance these ports receive from Customs regarding requirements for interfacing and for specifications necessary for use by Customs. Do you have guidelines for port automation? Could you develop them? They would seem necessary to meet the Department's stated goal of uniform and smooth processing.

MR. VON RAAB: In the early analysis and design stage of the Automated Commercial System (ACS), Customs recognized the need to supply guidance and support to Port Authorities. To accomplish this, the Customs Service has provided multi-faceted support.

- Customs has followed a policy of targetting groups such as National Council on International Trade Documentation (NCITD), National Customhouse Brokers & Freight Forwarders Association of America (NCBFFAA), American Association of Rail Roads (AARR), American Association of Port Authorities (AAPA), International Air Transport Association (IATA), and Air Transport Association (ATA) to speak for the industry in developing interface standards.

- Customs has provided a draft policy statement that provides a clear delineation of authority, responsibility, and obligation to serve as a guidepost for external systems at gateway airports.

- Customs has published standards which provide basic information about the system, flowcharts, and details concerning the data elements and record layouts.

- All users are given guidance on a one-to-one basis in the application of communication protocols.

- Customs has made personnel available to furnish technical support to trade entities - carriers, brokers, importers, port authority, and service bureaus to insure that their system design is in harmony with the overall concepts of ACS and, at the technical level, their system is compatible with ours.

For several years, Customs has been participating in prototype carrier and port authority based cargo delivery systems as a means of alleviating the labor intensive function of reconciling imported cargo inventories. However, we realized that they were only a partial solution to our problems and were not designed to interface with other automated programs we are developing. The proliferation of independent systems brought home two points: first, within a very few years, we would be dealing with a multitude of individual manifest systems; and second, each would require different data and formats for Customs input and would be unable to communicate with Customs input and would be unable to communicate with Customs or other automated systems. Customs also tested several stand-alone internal manifest systems. None fully satisfied our needs or those of the importing community.

The conclusion drawn from these experiences was clear; to operate most effectively and efficiently, Customs needed one nationwide manifest system that could interact with both other Customs automated systems and interface with carrier, port authority, and service center systems. We began to develop a multi-modal cargo inventory and release system based in the Customs computer using the following concepts:

- The basic design concept of ACS is that there will be one national system and that the official reconciliation of the manifest will occur in the Customs computer.

- Industry users will have the option of direct interface, thereby, insuring uniformity of communications requirements on a national level, or interfacing through port authority systems.

- Customs will communicate with all involved parties: carriers, brokers, and port authorities on a computer-to-computer basis.

Customs has five major documents that provide guidance for development of external systems that will interface with ours.

° Automated Commercial System Brochure

° Draft Policy Statement (currently under revision)

° Customs Automated Manifest Interface Requirements (CAMIR)

° Customs Automated Air Cargo Declaration (CAACD - under development)

° Automated Broker Interface Requirements Document

In addition, Customs recently formed a task force to develop materials and capabilities to improve and speed-up user software and communications. These materials and capabilities include:

- Communications Requirements and Testing Procedures Manual

- Entry-Preparer Management Document

- Entry and Entry Summary Test Package

- Edit and Verification Modifications to AMS and ABI Requirements Documents

- Queriable Reference Files with down-loading capability

- Dummy Port Environment for Testing and demonstration

MR. HOYER: If ports automate - will they suffer further reductions in Customs manpower? I would hope that these personnel, freed from paperwork, could turn their attention to law enforcement or collection of revenues.

MR. VON RAAB: Customs continually evaluates staffing requirements based on workload, changing priorities, etc. These evaluations assist us in making decisions on deploying and reallocating available staffing resources.

Automation has greatly enhanced Customs ability to keep pace with an ever growing workload and to increase productivity. Staffing evaluations will be the determining factor in port staffing. Automation will probably be one of the evaluation criteria but will not be the sole factor considered in any decision to allocate staffing.

MR. HOYER: Assuming ports automate, do you believe that manifest data and other information should be restricted to use by Customs and other licensed officials? Can such a limitation be done by your office now or is there a need for a change in the law?

MR. VON RAAB: Customs is unable to restrict the use of data on manifests to Customs and other officials. This is because information on manifests is subject to disclosure under the Freedom of Information Act (5 U.S.C. 552) and also because 19 U.S.C. 1431 as amended on October 30, 1984, by Public Law 98-573, mandates that certain information on vessel manifests "shall be available for public disclosure."

Legislation would be required to protect manifest information from disclosure. This point regarding restriction of disclosure is of particular interest at this time because Customs has been informally advised that the press will probably seek early legislation to broaden press access to import manifests to include not only vessel manifests, but truck, rail and air manifests as well. Air, truck and rail manifests, unlike vessel manifests, may be used as Customs entry documents. When so used they will contain confidential financial or business information. If Customs is forced to handle press access to manifest information under the Freedom of Information Act, because of the millions of documents involved, Customs already limited resources might be unable to cope with the demand.

MR. HOYER: The Administration has long supported user fees and other means to accomplish desired goals. What would you feel about a program whereby 1 percent of port Customs fees were earmarked for the port's automation efforts for a period not to exceed a certain time?

MR. VON RAAB: It should be stressed that user fees as proposed by Customs and as authorized by the GATT agreements are only to reimburse Customs for the cost of providing customs services. Consequently, we do not believe that a flat 1 percent approach is as good an approach as Customs proposal, which calls for entry processing and other fees that cover Customs port automation costs. In addition, many port authorities are funding their own automation systems. Quite often, Customs interface with the port authority represents only a small portion of what their automated system is capable of doing for them.

MR. HOYER: Is my understanding that Customs will not be eliminating the surety bond program accurate?

MR. VON RAAB: Your understanding is accurate.

MR. HOYER: Any modifications or alternative which you have pursued or will pursue this year?

MR. VON RAAB: No

Mr. HOYER: I understand that Assistant Treasury Secretary Keating made a rather positive statement this morning on that issue. As I understand his statement, the review has been completed and that Customs and Treasury are waiting until April 1 to make a final recommendation so that additional, tangible evidence may be obtained in the likelihood of a court action. Is that correct?

Mr. VON RAAB: The review of all the evidence is not yet completed but will most likely be completed in April. This process consists of gathering all available information so as to substantiate a finding under 307 while at the same time ensuring that this evidence is of such a nature that it can withstand an anticipated court action. This is all part of the same action.

MR. HOYER: If that is correct, then you do have adequate information available and you are simply trying to get extra information, just in case? In other words, you are going to make a recommendation on April 1 regardless of what new material you might obtain by then, if you obtain any at all?

MR. VON RAAB: Any recommendation that may be made will be based on the total evidence available. This is not a case of trying to gather additional information in anticipation of a law suit. The statute and the regulations issued thereunder require that detailed findings be made before a final determination can be issued. The requirement of detailed findings is to ensure that a decision made in a particular case is a correct one. This involves reviewing the type of information or evidence presented, the availability of the evidence and the adequacy of the evidence. The statute does not provide for participation by importers in the decision making process. Therefore, it is particularly important that the information upon which any decision is made be accurate and adequate. This is to protect innocent U.S. importers who may be adversely affected. Thus, in all 307 cases, as in this case, information that will potentially serve as a basis for a decision must be strictly reviewed for its accuracy and adequacy.

MR. HOYER: Again, as I understand it, a legal challenge to an invocation of the forced labor law would require a showing that the Commissioner acted arbitrarily or capriciously, and in disregard of the facts. Given the wide discretion given to Customs and Treasury as to whether sufficient evidence exists, how likely is it that a legal challenge would be successful? Wouldn't it be difficult to to show arbitrary or capricious action by the Commissioner, and, if so, is the additional material you are seeking really necessary?

MR. VON RAAB: A decision by Customs and Treasury to invoke 19 U.S.C. 1307 would be subject to the same review that is given to all discretionary actions of government officials: any decision must have been made on a reasonable basis and the government employee must have been acting within the scope of his employment. As a decision to enforce §307 will clearly have political and economic ramifications, it is important that any decision made not only be "reasonable", but also be based on the most accurate and adequate information available. This is especially important as many innocent importers who may be affected have no direct input into the decision making process. Therefore, the additional information we are seeking is not merely a precaution against a potential legal challenge but instead, is required for a final determination under the statute.

MR. HOYER: Are there changes you would recommend in the law so as to strenthen Treasury's case? Please be detailed is your response for the record.

MR. VON RAAB: The Customs Service is satisfied with the current provisions of §307, and therefore, would not recommend any changes. The law in its present form gives Customs and Treasury broad discretion in enforcing the statute while ensuring that any decision made has a reasonable basis. In this case, the particular problem was the lack of easily available information regarding the structure, formation, and work practices in Soviet industries. It is this information vacuum and not any flaws within the statute that have made a decision in this case difficult to reach. In addition, it must be emphasized that §307 is an economic statute. The section has its genesis in the 1913 and earlier Tariff Acts. Its purpose was to protect American industries from the unfair advantage enjoyed by a foreign company resulting from goods manufatured by forced labor. This in not a statute that was enacted on human rights grounds or as a matter of foreign policy. Consequently, the standard of proof within §307 reflects its economic basis. In consideration of the current focus of §307, Customs would make no recommendations to change any provisions.

MR. COLEMAN: I have been informed by Customs personnel that the conditions at the port of Ysleta in the El Paso district are deplorable. Could you report to the Committee on the working conditions at Ysleta and what steps Customs is taking to correct them?

MR. VON RAAB: At Ysleta there is a small masonry building completed in 1955, with a single traffic lane which was ample at that time. The facility is owned by INS and the secondary vehicle area is owned by Customs. The existing facility is poorly designed and is inadequate in size to accommodate the increase in traffic.

A prospectus, requesting approval and funds for federal construction of a new border station facility at the terminus of the new bridge was approved by the House Committee on Public Works and Transportation May 10,1984. Funds in the amount of $7,756,800 were budgeted for FY-1985. During the meeting in Mexico City, Mexico on December 9,1985, the Government of Mexico recommended more studies on the need for a larger bridge at Ysleta. We informed the Mexican delegation that this area had been studied many times. Why study an area where Congress has already approved $7.7 million dollars for a new facility? The Mexican delegation failed to change their minds. The issue is currently stalemated.

MR. COLEMAN: According to personnel in the El Paso District, on line inspectors do not have adequate equipment to conduct their mission. Apparently, there is a lack of adequate office equipment. Could you report to the Committee on this?

MR. VON RAAB: Office equipment has been ordered and when it arrives it will be distributed to the three crossings.

MR. COLEMAN: Could you report to the Committee on the progress on expanding the import lot at the Bridge of the Americas in El Paso? I have been informed by the District Director that the General Services Administration was looking into the matter, could you comment on when construction might begin?

MR. VON RAAB: The import lot at the Bridge of the Americas was scheduled to be closed when the new facility at Ysleta was constructed. This would have kept the trucks off the POTA Bridge and would cut back on deterioration of the roadway. The Chief of Inspection reports that they want the import lot paved to accommodate more trucks but would want it closed when the Ysleta facility is built.

MR. COLEMAN: What is the status of establishing 24 hour import lot services, even on a reimbursable basis, along the U.S.-Mexico border?

MR. VON RAAB: According to Customs legal staff, we cannot establish 24 hour import lot services under existing statutes. Also, our reduced staffing will prevent us from establishing such services at this time.

Customs Overall Funding

MR. CONTE: The President often justifies defense increases by contending that our military spending is not determined by any domestic force but by the enemy's military build-up. In this war against drugs, doesn't this same reasoning apply to the Customs Service?

MR. von RAAB: To some extent, the same reasoning does apply and that is why this Administration has increased significantly Federal resources directed to all phases of the drug trafficking and use problem. Within the Federal government over 20 agencies including the Customs Service are involved in Federal drug law enforcement efforts. In fact, government-wide resources devoted to drug enforcement have grown 96 percent in real terms since 1981, and will total almost $2 billion in 1987. The Customs Service's own drug enforcement programs have grown substantially over the past several years. The FY 1987 budget submission will continue to fund and staff Customs air, marine and investigative programs at previous levels.

MR. CONTE: When drug smuggling is increasing at alarming rates, don't we have to meet the challenge with adequate resources, that is increased funding?

MR. von RAAB: In FY 1987, although the Administration proposes to maintain current level funding for most drug enforcement programs, it does propose increases in selected high priority areas.

This offers the best chance of gaining on the war against drugs, while at the same time exercising fiscal restraint in the face of large Federal deficits. We all want to see the tragedy of drug abuse eliminated, and Customs will continue its strong commitment in the fight against illegal narcotics activity.

MR. CONTE: How much did the Customs Service request of the Treasury Department for FY 1986 salaries and expenses? How many average positions would this cover?

Mr. von RAAB: In the FY 1987, Spring Budget Submission to the Treasury Department, the Customs Service requested $685,742,000 and 13,418 average positions for FY 1986 Salaries and Expenses.

MR. CONTE: How did the FY 1986 Gramm-Rudman cut affect the forfeiture fund?

MR. VON RAAB: Gramm-Rudman-Hollings reduced the forfeiture fund by $344,000 in FY 1986. This reduction will impact on Customs only when applicable seizure costs exceed $7,656,000 for the year.

MR. CONTE: How did the 4.3 percent cutback affect the Air Interdiction Program?

MR. VON RAAB: The 4.3 percent Gramm-Rudman reduction eliminated funding for Miscellaneous Spares for Loaned Military Aircraft ($.7 M) and reduced the amount available for development of the ROCC/C3I's by $2.525 M.

MR. CONTE: The justification shows an unobligated balance of $10.9 million for FY 1985, including $9.6 million in no-year and multi-year funds. How will this money be spent? Could these funds have been reprogrammed for use in staffing?

MR. VON RAAB: In FY 1985, Congress approved a supplemental for the Customs Service. Included in this supplemental was $12.2 million in multi-year funds for the Marine Program. The Congress specified how these additional funds were to be used, (i.e. for purchasing 40 interceptors, aerostat operations, etc.). Since the supplemental was approved late in the fiscal year, only $3.8 million was obligated in Fy 1985. The remaining $8.4 million will be obligated in FY 1986.

In addition to these multi-year funds, the unobligated balance includes $1.2 million in no-year funds for research and development. Most research and development projects require advance scheduling due to long lead times needed for the various development and testing stages. For these reasons no-year funds are essential to initiate and complete research and development projects. Equipment development is vital to our enforcement, passenger, and cargo processing programs which require new technology in order to keep pace with a growing workload and in thwarting the modern day criminal element.

These multi-year and no-year funds were in effect not available for reprogramming based on priorities established by Congress and internally within Customs. In addition, most of these funds were obligated prior to the Gramm-Rudman-Hollings reductions.

MR. CONTE: Of the $12.3 million unobligated balance in FY 1985, how will the $11 million be spent?

Why wasn't $1.3 million spent in FY 1985?

MR. VON RAAB: Of the total $12.3 million remaining unobligated in FY 1985, $11 million was included only as a technical requirement to balance the overall appropriation. The $11 million was appropriated as part of a FY 1985 supplemental late in the year with multi-year spending authority. Customs will spend the $11 million in FY 1986 as follows:

Site Survey and Preparation for SW Border Aerostat	$1.0 M
COMINT System for P-3A	2.0 M
2 Sensor Integration Systems for P-3A	.6 M
Marine Radar in King Air/C-12	1.0 M
Infrared Surveillance Equipment for CHET	4.0 M
ROCC Miami/March AFB	2.0 M
CARIBALL Security	.4 M

With regard to the remaining $1.3 million unobligated in FY 1985, Customs fully anticipated that these funds would be spent in support of several significant projects, however, in some instances actual costs were below projections. The specific reasons are as follows:

- Travel ($200K) due to the nature of case work, actual travel costs were not as high as originally anticipated.

- Rents, Communications & Utilities ($400K) - Charges for data and communications lines were lower than projected.

- Contract Services ($175K) - Actual cost of several repairs was lower than anticipated.

- F-15 Radar ($433K) - Actual amount of Interagency Agreement for F-15 Radar was lower than originally estimated by the military.

- CARIBALL ($100K) - This amount was set aside to cover contractor insurance costs, however, the contractor was not able to arrange for a policy.

Customs is implementing tighter fiscal controls to insure that almost all funds are obligated as authorized by the Congress.

MR. CONTE: Has Operation EXODUS been successful in combatting illegal exports,, especially defense related items? Do you consider this program vital to national security? How much money will be devoted to this program in FY 1987, and how does this compare to the amount authorized for FY 1986? Does industry cooperate with this program?

MR. VON RAAB: Our EXODUS program has been very successful in combatting illegal exports since its inception in October 1981. We have targeted items specifically designed for military use, as well as dual-use items that can be used for either military or civilian applications. Since program inception through FY 1985, EXODUS has been responsible for 373 convictions, 837 indictments, 614 arrests, and approximately 4,500 seizures valued at over $300 million. Some of the items seized with military applications include large VAX computer systems, F-14 aircraft spare parts, chemical warfare protective equipment, night vision devices, radar components, and krytrons (nuclear trigger devices).

We definitely consider EXODUS to be vital to this country's national security. This view is shared throughout the Administration, particularly the Defense Department. The intelligence community considers EXODUS to be a priority item, and we are receiving excellent support from them. We are actively cooperating with the Defense Department in various cases involving the illegal sale and diversion of defense equipment. The Justice Department maintains a master list of export control cases considered to be most significant from a national security standpoint. Of the 110 cases currently included on the list by Justice, Customs had the lead in 92 investigations.

During FY 1987, we expect to obligate $13.1 million to EXODUS, as compared to $13.1 million to be obligated in FY 1986.

Finally, I am pleased to report that EXODUS does, in fact, enjoy excellent support throughout the business community. We have made a major effort to ensure that legitimate exports are not unnecessarily delayed with a sophisticated targeting and selectivity program in operation at major ports of egress. Through FY 1985, in excess of 80 percent of the merchandise detentions resulted in seizures -- meaning that we are successfully targeting the illegal exports. We also conduct Operation GEMINI designed to enlist the support the manufacturing and exporting community for EXODUS objectives. Many of our most significant investigations involve a great deal of voluntary industry support, and many of our investigations have been initiated based on information on potential violations volunteered by the business community.

MR. CONTE: If the Administration's proposal for Customs user fees were adopted, how would this additional revenue, estimated to be $500 million, affect federal appropriations for the Customs Service?

MR. VON RAAB: Customs would continue to be appropriated through the established process.

MR. CONTE: Would these user fees violate the GATT agreement?

MR. VON RAAB: No. The GATT allows for the assessment of fees based on the cost of processing. The fees, under the Administration proposal, would be set through the regulatory process and be based on Customs actual costs of providing the services for which fees would be assessed.

MR. CONTE: What is the difference between the imposition of Customs Service user fees and charging the taxpayer a fee for filing his income tax returns?

MR. VON RAAB: That analogy is popular among opponents of Customs processing fees. It is not an appropriate analogy. Of the 230+ million citizens in the United States, over 90 million file tax returns. Of the same number of citizens, less than 10 percent of that number ever come into contact with Customs during a given year either through the importation of merchandise, as a traveller, or through some other means. A very small percentage of the total population, those who import merchandise into the United States, actually pay duties. An even smaller percentage of the total population pays duty as a result of international travel.

Duties are deposited in the general treasury as part of the revenue generated for total government operations. The fees are deposited as a method of recovering the costs of providing specific services used by a very small percentage of the total population.

MR. CONTE: Last May, did you approve a report called "Five Year Force Structure and Financial Plan" for the Customs Service Aviation Program?

Less than a year later, does this plan reflect the goals of the Customs Service Air Program?

Under this plan, the Air Program budget prediction for FY 1987 is somewhat over $100 million, significantly more than the $54.7 million requested in this budget. Doesn't this budget estimate for FY 1987 fall far short of meeting the drug smuggling threat to this country?

MR. VON RAAB: In May 1985, Customs approved, as a planning document only, the Aviation Program "Five Year Force Structure and Financial Plan." The plan was an Aviation Program effort to formulate an aggressive, structured, incremental development of the Air Interdiction Program and contains assumptions, proposals, and projected resource levels not necessarily approved or supported by Customs and Treasury management.

The goal of the Customs Aviation Program, as iterated in the Five Year Plan, is to reduce smuggling of contraband by aircraft to an irreducible minimum. A proposed strategy for achieving this goal was outlined in the Five Year Plan. That plan is now being reviewed and revised to reflect modifications to that strategy, and to more realistically define achievable program development given the current budgetary environment.

The FY 1987 budget request allows Customs to continue operating the Aviation Program at its current level and to continue development of the C3I Centers and the C-12 modification program. The Five Year Plan contains funding estimates for several high-cost/long-range enhancements (such as 360 degree radar for the P-3A aircraft) which Customs is evaluating and may pursue in the future. However, these proposed enhancements have no impact on our current ability to meet the drug smuggling threat.

The plan also includes an increase in operations and flight hours, assuming significant increases in staffing and high-performance aircraft. While recent staffing increases coupled with innovative scheduling techniques will result in increase operational preparedness, we will not be operating at the level proposed in the Five Year Plan for FY 1987.

MR. CONTE : The five year plan for the Air Program states "The efficiency of the Air Interdiction Program may be measured by the ratio of the number of apprehensions to the number of targets detected and properly classified as smugglers." What is our success rate now, and how does this compare to last fiscal year?

MR. VON RAAB: The efficiency of the Air Interdiction Program may be judged by our detection and classification of targeted aircraft, as well as other variables such as disruption and altering of techniques and methods of smuggling operations. We are in the process of enhancing these capabilities. Three P-3A's were added to our aircraft fleet at the end of FY 85 to further increase our detection resources. We are exploring and will determine the feasibility of deploying aerostats along the entire border between the U.S. and Mexico to further increase our detection net.

In 1985 the Air Program seized or was involved in the seizure of twice the amount of cocaine than was seized in 1984. The majority of the seizures occured in the Southeastern U.S. and the Bahamas. Our success in this area has had a dramatic effect on the smuggling community, causing methods of operation to change dramatically and penetration routes to be altered. The number of reported border intrusions in that area has decreased as have domestic aircraft seizures while at the same time airdrops, landings, and arrests and seizures in the Bahamas have significantly increased. Requests for aviation support to the Customs Marine Program and the Bahamian Assault Team have also increased sharply.

MR. CONTE: Is the Air Program strategy designed to develop a 24-hour/7day operation in each sector, as stated in the five year plan?

Will the near term goal of a "16 hour/7 day operation at each operational site" be achieved in the near future?

Given the resources recommended in this budget, what is the Customs air coverage by sector?

With this budget recommendation for the air program, will each Customs sector have a minimum of one alert tactical enforcement air unit ready for launch at all times.

MR. VON RAAB: It is the strategy of the Air Program to achieve the broadest operational readiness possible within the constraints of available resources. Recent staffing allocations are designed to expand C3I coverage (East and West) to 7 x 24. The Miami Air Branch currently is capable of a 7 x 16 operation and the remaining Air Branches are operational 7 x 8. Increased staffing and O&M resources would be required to bring the remaining branches to a 7 x 16 operational capability by end of FY 1987.

Customs insures that there is a response crew available at all times for any required launch by designating specific individuals as stand-by or alert crews. These crews are responsible for responding to any interdiction action that occurs outside the scheduled hours of operation. The recent staffing increases coupled with innovative scheduling techniques will result in increased operational preparedness.

MR. CONTE: If proposed $20 million rescission does not take effect, can the Customs Service efficiently spend this money or will there be an unobligated balance at the end of the year?

MR. VON RAAB: If the proposed rescission does not take effect, Customs should be able to spend these funds. Since some of the enhancements were partially funded in the FY 1985 Supplemental, procurement actions are already in progress. We are establishing requirements for items such as HF/SSB Secure Communications equipment, programmable radios, engines, weather radars, and helicopter map displays. Having these contracts in place will enable us to procure these items if funding is available.

MR. CONTE: If the funds cannot be efficiently spent in FY 1986, would you support transferring this amount to the Salaries and Expenses account for use in meeting the current personnel shortage?

MR. VON RAAB: I believe Customs would be able to spend these resources in the manner originally planned.

MR. CONTE : How many Customs positions are dedicated to the operation and maintenance of the Air Program, and how does this level compare to the FY 1986 level?

MR. VON RAAB: There are currently 389 positions allocated to the Air Interdiction Program. Customs anticipates that no new positions will be dedicated to the operation and maintenance of the Air Program in FY 1987.

MR. CONTE: Some reports have indicated that Customs Service equipment in the Air Program, has been under-utilized because of staff deficiencies. Is there any truth to these reports?

MR. VON RAAB: There have been some instances of under utilization of equipment in the Air Program due the difficulties associated with finding qualified applicants to fill P-3A vacancies; and due to the limited number of Black Hawk training positions allocated to the Customs Service for FY 1986. Customs has requested and received direct hire authority to expedite the filling of pilot vacancies, and we are making good progress in this regard.

MR. CONTE: Based on a per hour-cost, how much does it cost to operate the P-3A aircraft? The Black Hawk helicopters?

MR. VON RAAB: Customs is operating the four P-3A aircraft within the $3,200 per hour budgeted cost. The cost of operating the eight Black Hawk helicopters is currently estimated at $2993 per hour which includes the full price replacement of two engines at $437,000 (one of which was purchased with FY 1985 year end funds) as well as low flight time on the last two aircraft received. Both of these factors figure prominently in the hourly cost. We anticipate that the cost per hour will decline considerably since we now have two spare engines and flight time should begin increasing to the projected level of sixty hours per month per aircraft. However, the grounding order issued by the Army on March 12, 1986 may greatly affect these assumptions on hourly cost but would not affect the total funding requirements for FY 1986.

MR. CONTE: How much does the FY 1987 budget recommend for research and development in the Customs Air Program? Do you consider this activity important to the overall success of the air interdiction program?

MR. VON RAAB: There are no enhancements in the Customs Salaries and Expenses or Air Operations and Maintenance budget submissions that focus on research and development. However, the Salaries and Expenses base budget submission includes approximately $500,000 for Air Program related research. Additionally, the Air Operations and Maintenance budget submission includes $7,000,000 for the modification of Army C-12 aircraft to function as marine trackers and the continued development of Customs Command, Control, Communications and Intelligence centers. These are developmental projects that are planned and implemented by the research and development organization (R&D). We rely heavily on R&D support and consider it vital to the Air Interdiction Program's success. Many of Customs past successes have resulted directly from R&D initiatives; second generation sensors are now in the conceptual stages of development. We expect that R&D will continue to provide essential technical and developmental support for the foreseeable future.

MR. CONTE: How does the computerized system for Customs inspection deal with products imported under the quota system?

MR. VON RAAB: Currently the Customs inspectors use an automated system called Selectivity. When entry information is keyed into this system, the computer checks the quota files for a match on the tariff schedule number and on the country of origin. If such a match is found, the inspector ensures that the entry has been cleared by the commodity team handling this quota merchandise before permitting release.

With the advent of the new quota module, the inspector will have the capability of determining if this merchandise had been charged to quota and a release authorized by the commodity team.

MR. CONTE: Do you have any estimates of the amount of merchandise circumventing the quota system each year?

MR. VON RAAB: We have no way of estimating the amount of merchandise that is circumventing the quota system each year; but, we can provide information on the number of seizures and the amount of penalties assessed during the past year.

MR. CONTE: Have foreign governments, such as the Japanese or Koreans, been cooperative in the effort to stop the illegal importation of merchandise?

MR. VON RAAB: Many foreign governments, such as the Korean Republic, are being cooperative in the effort to stop the illegal importation of merchandise. The Taiwanese, in cooperation with the U.S. Customs Service, enabled U.S. Customs to stop the entry of their merchandise into the United States which was accompanied by fraudulent visas through the U.S. Customs' Visa Verification System. The Koreans are now getting ready to use the Visa Verification System. Several other countries have expressed an interest in becoming a part of this program.

The Japanese, on the contrary, have been uncooperative in all our attempts to investigate or stop illegal importations. They have been given information on transshipments of steel and textiles through Japan and have done nothing to institute investigations on their own or to support our investigations. For example, we know that Korean fabric is being transshipped through Japan and the Japanese government is taking no action.

MR. CONTE: The Wall Street Journal recently reported that "by some Congressional estimates, perhaps as much as $40 billion in contraband and counterfeit goods are slipping past the Customs Service each year, with losses in duties running as high as $3 billion."

Do you agree with this estimate?

According to Customs, how much revenue is lost each year because of fraudulent reporting or counterfeiting?

MR. VON RAAB: Contraband as reflected in your first question is usually associated with smuggled or unlawful imports. The U.S. Customs Service does not believe such illegal importations to be of the magnitude described. Likewise, the importation of counterfeit goods, while having a significant detrimental effect upon domestic industry, would have no bearing upon losses in duty. However, it is recognized that losses in duty are occurring as the result of transshipments, incorrect country of origin and a number of other types of activities. While the Customs Service has made no formal estimates as to the extent of the losses, I would point out that Commercial Fraud has been one of our highest priorities during the past two fiscal years. Last year our seizures of non-narcotic articles amounted to $1.195 billion. In the area of counterfeit articles, we reported seizures of $67 million. For several years Customs has emphasized its fraud efforts against unauthorized steel, textile and wearing apparel imports, drawback, trademark and copyright violations. This year, country of origin has also been emphasized. The U.S. Customs Service believes that our concerted enforcement endeavors in the area of commercial fraud have and will continue to be highly successful in protecting the domestic industry and the consumer while fulfilling our statutory tariff and trade obligations.

MR. CONTE: Would increased inspections result in greater revenue for the Treasury?

MR. VON RAAB: The Customs Service has taken a number of steps to improve the methods by which cargo is examined. In this regard, centralized devanning stations have been established that are fully equipped to accommodate the devanning of high-risk containerized cargo. Also, through our cargo selectivity system, we are concentrating our efforts on performing more selective examinations based upon improved intelligence and enforcement criteria. The selectivity system is currently being enhanced by updating and improving our enforcement criteria and developing an automated importer history file (Tier II). We are concentrating our efforts on performing quality examinations, rather than the quantity of examinations.

MR. CONTE: Does the Customs Service consider import fraud investigation a high priority?

MR. VON RAAB: Yes, the Customs Service does consider import fraud investigation to be a high priority. It is one of our major areas of emphasis in the Office of Enforcement along with drug enforcement and critical technology transfer.

MR. CONTE: Specifically, in what ways have you committed resources to meet this priority?

MR. VON RAAB: In 1983 we established the Customs Fraud Investigations Center (CFIC) at Headquarters to support and coordinate fraud investigations at our field offices. The CFIC is staffed with senior agents, import specialists and computer experts. It serves as a clearinghouse for collecting and disseminating information on commercial fraud activities as well as a liaison between our field offices and other government agencies and the private sector.

In the last two years several successful operations against specific areas of commercial fraud have been initiated and coordinated from the CFIC. Examples include the steel task forces at Seattle and Houston, and the textile task forces at New York and Los Angeles.

Experts from the CFIC regularly travel to our field offices to hold classes and seminars in commercial fraud detection for agents and inspectors.

There are currently almost 300 Customs agents in the field who are dedicated to commercial fraud cases. In addition, we now have Customs officers in 14 of our overseas offices where they carry out investigations of foreign suppliers and manufacturers as well as provide intelligence on potential fraudulent practices associated with commercial shipments exported from their assigned areas.

Finally, local teams similar in composition to the CFIC have been established at several of our larger ports to selectively screen imports for fraud violations, and to pursue fraud prosecutions and civil adjudications.

MR. CONTE: Customs is a revenue producing agency of the government. For every dollar spent by U.S. Customs, how much is generated for the Treasury?

MR. VON RAAB: In FY 1985, the rate of return was $20.16 for every dollar appropriated.

MR. CONTE: Would revenues increase if greater resources would be provided to the Customs Service?

MR. VON RAAB: The Customs Service has not produced any studies which convincingly demonstrate a correlation between resources expended and revenue. As far as we can determine without any accurate analyses, the revenue generated by the Customs Service is primarily a function of economic conditions and duty rates rather than budgeted resources. Therefore, it appears that Customs resources do not necessarily impact revenue.

MR. CONTE: How much more money would be generated if the Customs operations were maintained at current services adjusted for inflation?

MR. VON RAAB: Based on the reasons I stated previously, there is no analytical basis for projecting revenue.

MR. CONTE: Would this increased revenue generated cover the increase in Federal funding?

MR. VON RAAB: As I stated previously, at this time we have no means of projecting the increased revenue generated by an increase in Federal funding.

MR. CONTE: Do you think Customs has adequate resources to fight the war on drugs? Customs seized 785 pounds of heroin in FY 1985. What percentage of the total amount of heroin smuggled into the country is actually seized by the Customs Service? For cocaine, what percentage of the total amount is the Service intercepting now? What level of interdiction would provide a measurable deterrent? Is the goal of this program to provide a deterrent for those thinking about entering the drug trade? What funding level would be required to effectively meet this level of enforcement?

MR. VON RAAB: Within its appropriated resources, Customs is making every effort to improve its narcotics intelligence and selectivity capabilities to continue to play a major role in the national anti-narcotic effort. Selectivity, the increased use of automated approaches, and improved intelligence have permitted Customs to optimize available resources in its interdiction efforts.

Customs seized 785 pounds of heroin in FY 1985. We prepare an annual narcotics threat assessment on a calendar year basis. For CY 1985 we estimated that 10,000 pounds of heroin would be smuggled into the United States, and we seized 714.4 pounds, or 7.14 percent. For CY 1986, we estimate that 13,000 pounds of heroin will be smuggled into the country, a 30 percent increase over the previous year.

In CY 1985, our threat assessment indicated that 130,000 pounds of cocaine would cross our borders, and we seized 51,648.5 pounds of this illicit drug, or almost 40 percent of our estimate. The cocaine threat for CY 1986 has been projected at 275,000 pounds, a 111.5 percent increase over the previous year.

Our current level of interdiction provides a measurable level of enforcement results, as shown above, which are, admittedly, far short of what we would like. Interdiction, as well as our inspectional and investigative efforts, certainly has a deterrent affect. However, considering the level of drug smuggling, the profits involved, and the consumer demand within the United States, we must concentrate our efforts on seizing drugs at the border before they enter the internal distribution channels. We are constantly evaluating our interdiction and enforcement results and making needed adjustments to improve our interdiction and enforcement results. By improving these results and making it harder and more expensive for narcotics traffickers to do business, we increase the deterrent affect. Our goal is to reduce the flow of illicit narcotics into the country, and the closer we come to this goal, the higher the deterrent level will be on those who contemplate illegal activity.

MR. CONTE: In Fiscal year 1986, the adjusted funding level would provide 13,265 average positions. How many average positions are there in the Customs Service now? Does this number differ from the actual positions currently employed by the Service?

MR. VON RAAB: As of March 1, 1986, there were 13,064 average positions in the Customs Service.

MR. CONTE: How much did the administrative centralization plan cost to implement?

MR. VON RAAB: The total implementation costs for centralizing administrative services were $10.2 million.

MR. CONTE: Are there any savings realized in FY 1987 and what is the annualized cost benefit of this centralization?

MR. VON RAAB: Yes, in FY 1987 and each subsequent fiscal year, the Customs Service will realize $5.5 million in savings. As instructed by Congress, these savings were redirected internally for enforcement and other priority areas.

MR. CONTE: Has the new system presented problems to the operations of the Customs Service?

MR. VON RAAB: As with any major change there is always a certain amount of disruption during the transition period. However, the transition period involved for administrative centralization was relatively trouble free with only minor problems. The Customs Service took a number of steps (i.e. established task forces, conducted briefings, developed procedures, etc.) to ensure that the implementation process went as smoothly as possible. The overall operations of the Customs Service were not impacted by the minor problems experienced during the transition period. These minor problems have now either been resolved or soon will be.

MR. CONTE: Has Headquarters received any written communication from District Directors or Regional Commissioners complaining about this plan? Please provide copies for the records.

MR. VON RAAB: When administrative centralization was first proposed there were, of course, a number of concerns expressed by Customs field staff. As implementation plans progressed most of these concerns were allayed or put to rest. The Regional Commissioners and members of their staff attended briefings on centralization and were provided the opportunity to comment or express their views. I am not aware of any written complaints being received at Headquarters from the District Directors or Regional Commissioners pertaining to administrative centralization.

MR. CONTE: Specifically, how did the $31 million Gramm-Rudman cutback affect Salaries and Expenses account of the Customs Service? Was the cut distributed uniformly?

MR. VON RAAB: The 4.3 percent Gramm-Rudman-Hollings reduction was applied uniformly to each of Customs appropriation accounts. For its Salaries and Expenses account, the 4.3 percent reduction amounted to $30.8 million. To determine the extent of specific reductions within this account, Customs reviewed its priorities and programs. Our policy was to allocate the reductions in a manner that would least affect the enforcement efforts and field operations of the Service. Since the bulk of the Salaries and Expenses budget is related to personnel costs and benefits, it was natural that the bulk of the reductions should be offset through FTE cost saving actions. A selective hiring policy, the additional positions provided under the Continuing Resolution and streamlining port operations will generate savings sufficient to cover approximately 70 per cent of the reductions with a related loss of 777 FTE. Decisive management control over areas such as relocations, travel, training, purchases of information, asset aquisitions, and special operations will generate the balance of the savings required.

MR. CONTE: I understand the Customs Service manages customs operations in the Virgin Islands and Puerto Rico on a reimbursable basis. How did the Fy 1986 Gramm-Rudman cut affect these operations, specifically the reimbursement?

MR. VON RAAB: The Customs Service does manage customs operations in the Virgin Islands and Puerto Rico. However, there is a difference in the means by which this is accomplished. When collections are made on behalf of the Virgin Islands they are placed in a deposit fund account with Treasury. This deposit fund account is not subject to the appropriation process. The Customs Service bills the Virgin Islands on a regular basis to cover the costs of the services provided. This reimbursement is part of the Customs Service reimbursable account.

The Customs Service is responsible for administering a special fund account for Puerto Rico which is subject to the appropriation process. Collections made on behalf of Puerto Rico are deposited into this account at Treasury. After Customs costs are reimbursed, the proceeds are refunded to Puerto Rico.

As the Virgin Islands is part of Customs reimbursable account and Puerto Rico is a separate account, the Gramm-Rudman-Hollings sequestration impacted these two operations differently. The special fund account for Puerto Rico was subject to a 4.3% sequestration of $4.5 million which affected the reimbursements to Customs for services and Puerto Rico's refund. For the Virgin Islands only the reimbursement to Customs for services was subject to a 4.3% sequestration of approximately $108 thousand.

MR. ROYBAL: The President's Commission on Organized Crime urged the President to order the military into fight against an "airborne, amphibious and overland invasion" of the United States by drug smugglers. The budget for 1987 for the Customs Service requests a reduction of over 1,500 positions. How can you come before this Committee justifying a reduction when the Commission (and just about everyone else knowledgeable about the drug problem) is urging a tremendous increase in personnel to solve this terrible problem?

Mr. Von RAAB: The FY 1987 budget submission for Customs recommends a reduction of 770 positions over the proposed FY 1986 budget. Wherever possible, these reductions will not significantly impact Customs enforcement efforts. In fact, Customs air, marine and investigative programs will remain fully staffed and investigative casework will continue to be funded at its previous level.

Within the Federal government over 20 agencies cooperate in Federal drug law enforcement. The Administration considers improvements to the Federal drug law enforcement program one of its top domestic priorities. In FY 1987 the Administration proposes to maintain current level funding for most drug enforcement programs as well as increases in selected, high priority areas. The proposed reduction will allow the Customs Service Air Interdiction Program to continue to maintain the program at its FY 1985 level while redirecting scarce resources to the elements most crucial to the success of the program--investigations and intelligence.

MR. ROYBAL: While it is true that advances in technolo have helped in the fight against drugs, wouldn't you agree that by inceasing both technology and people you would be able to do a more effective job?

MR. von RAAB: Since 1981, Customs has both increased the technology and staffing directed to stopping drug smuggling and other enforcement efforts. In combination, they have been most effective in increasing Customs seizures, especially for cocaine and heroin. We believe the staffing levels directed to Customs enforcement programs are sufficient for currently available equipment and threat levels. Furthermore, the proposed staffing reductions will not impact the effectiveness of our enforcement effort.

Customs Personnel Reductions

MR. ROYBAL: In addition to drug interdiction, the Customs Service is vitally important to international trade and commerce. You've heard the old saying "Time is Money". Are you concerned about being penny wise and pound foolish by cutting back Customs personnel and saving the government a little bit of money and costing the private sector a great deal more because of delays?

MR. von RAAB: Over the past several years the Customs Service has implemented various programs to facilitate cargo and entry processing while dealing with increasingly complex workloads. At the heart of this effort is the Automated Commercial System (ACS). Numerous ports have on-line a comprehensive data base with all the functions required for processing entries. In addition, to speed the flow of merchandise, Customs is expanding existing cargo selectivity and enhancing its automated cargo processing system. By law, importers also have available to them the immediate delivery procedure and the in-bond procedure that allow for expeditious processing of imports. Customs firmly believes that the importing public will experience no major inconvenience as a result of the planned reductions.

MR. ROYBAL: With regard to last year's allocation of personnel to specific districts - can you tell us how many additional personnel have actually been assigned to each of those ports and how many will be assigned in 1987? (See House Report 99-210.)

MR. von RAAB: Since June 1985, additional personnel levels, approved for the districts mentioned in House Report 99-210 increased as follows:

Los Angeles	60
Seattle	20
El Paso	27
San Diego	42
Hawaii	2

In addition, Customs has 457 hiring commitments, many of which will surely be in these districts (except for Baltimore where the current workload, compared to the increasing workloads in other locations, does not justify the allocation of additional FTE's).

As for FY 1987, unfortunately, due to the need to decrease staffing by 770 FTE, we seriously doubt that we can increase staffing at any of these locations.

MR. ROYBAL: At the hearing this morning you told Mr. Akaka that you were doing away with temporary positions and replacing them with overtime of regular Customs employees. Isn't it much cheaper to use temporary employees and doesn't it also help supplement the income of those temporary employees, many of whom are retired and enjoy both the job and the extra money?

MR. VON RAAB: Customs is currently considering implementing single shifts at airports. What this would mean is that customs services would be provided free only during this time period, Monday through Saturday. However, any services provided outside of the regularly scheduled shift would be provided on a reimbursable basis. The airlines would have to pay the overtime costs associated with providing the requested service. As this initiative would eliminate shifts at certain locations and reduce the hours of service at others, there would no longer be a need for temporary and part-time staff.

In addition, Customs is considering eliminating some part-time inspectors at seaports which would have virtually no impact on workload. These two initiatives would substantially reduce the number of Customs temporary and part-time employees. As a result, considerable cost savings would be realized by the government.

MR. ROYBAL: The Customs Air Interdiction Program was established 3 years ago as a separate line-item. How successful has the Air Interdiction Program been in these past 3 years?

MR. VON RAAB: The Customs Air Interdiction Program has made significant progress in the last 3 years. Our detection capability has been greatly enhanced, and developmental programs are ongoing to achieve even greater detection and response capability. Our aircraft fleet has been upgraded with the acquisition of additional radar and night vision equipped interceptor and tracker aircraft and high speed apprehension helicopters.

The success of the Air Interdiction Program is evidenced by the dramatic changes in smuggling trends, especially in the high threat area of the southeastern United States. The number of suspect border intrusions and domestic seizures in that region has consistently decreased while smuggling activity into the Bahamas, offshore airdrops and related arrests and seizures have risen sharply. Customs has impacted the air smuggler sufficiently to force a definitive change in the way they do business.

MR. ROYBAL: What specifically have you planned for 1987 and do you think the resources you have requested are adequate to accomplish those plans?

MR. VON RABB: In FY 1987, Customs plans to maintain air interdiction operations at their current level, including operation of high-performance interception, tracking, and apprehension aircraft and four P-3A's as airborne detection platforms. We also plan to continue development of the ROCC/C3I Centers and modification of C-12 aircraft for dedicated marine support. The resources requested for FY 1987 are sufficient to accomplish these plans.

MR. ROYBAL: Please explain to the Committee how the forfeiture fund works and specifically what benefits does Customs get from its operation.

MR. VON RAAB: To the maximum amount authorized by Congress, seized and forfeited currency and any proceeds of sale beyond the expenses of seizures and forfeiture of merchandise are deposited in the forfeiture fund account. The deposits in the fund are then used to pay any costs in excess of reimbursed expenses for individual seizures; awards to informants; equipping forfeited vessels, vehicles and aircraft converted to official use; purchase of evidence and destruction of prohibited merchandise and drugs.

In prior years, all of the aforementioned costs were paid from appropriated Salaries and Expenses funding. The more drug related seizures there were the more adverse impact there was on the Customs budget and the less money there was available for day-to-day operations. The forfeiture fund permits Customs to cover seizure-related costs without significant impact on the operations and enforcement efforts of the Service.

MR. ROYBAL: What is the current law regarding the number of small airports which can be serviced by Customs and what is the method of operation?

MR. VON RAAB: The Trade and Tariff Act of 1984 (P.L. 98-573) originally allowed the Secretary of the Treasury to designate up to four airports at which Customs services would be made available on a fully reimbursable basis. Now Congress has increased the number of airports that can be "designated user-fee airports" to 20.

Basically, a designated user-fee airport does not meet the requirements for nonreimbursable service as a port of entry. But with a Governor's endorsement and an agreement to reimburse the Government for its costs, an airport is eligible for Customs service.

The program has been very well received by communities that are interested in developing international trade and commerce. Designated user-fee airports currently operating are Lebanon, New Hampshire; Allentown-Bethlehem-Easton Airport in Pennsylvania; an Airborne Express courier facility in Wilmington, Ohio; and Southwest Florida Regional Airport near Fort Myers. In the near future, we anticipate designated user-fee service will be granted to Fargo, North Dakota, and Santa Teresa, New Mexico. A number of other locations are also interested in pursuing this type of service.

Customs service at a designated user-fee airport is the same as at regular Customs ports and stations. However, an advance agreement is reached with the local airport authority regarding the terms of reimbursable service. In addition to paying a fee to cover the salaries, benefits and relocation costs of the Customs personnel assigned, the airport authority is also responsible for providing the necessary facilities and paying for required equipment and supplies. A table of fees is now being prepared so that interested locations will know what it would cost for each year the service is provided.

Overall, the public reaction to this program has been very favorable, and the Customs Service is making every effort to foster the development of designated user-fee airports.

MR. ROYBAL: What impact will the proposed rescission have on your operations?

MR. VON RAAB: The proposed rescission eliminates the following enhancements:

Southwest Border Aerostat	$9,000,000
Integrated Logistics System	2,300,000
COMINT	4,000,000
Electro-Optics	1,500,000
Mission Commander Systems	675,000
DOD Drug Enforcement Wing	1,800,000

The proposed rescission does not impact current operations.

MR. ROYBAL: To what extent will the proposed rescission weaken the air interdiction effort?

MR. VON RAAB: The proposed rescission will not weaken Customs ability to continue air interdiction operations at the current level.

The proposed FY 1986 rescission eliminates all planned enhancements to the air interdiction program. However, several enhancements initiated in prior fiscal years will continue, for example, operation of the new tracker/interceptor aircraft (CHET) will begin in 1986; operation of four P-3A's (compared to one in FY 1985), modification of C-12 aircraft for dedicated marine support, and development of the ROCC/C3I.

MR. ROYBAL: Has the Customs Service considered the competitive disadvantage that its proposal to close its inspection facility at Terminal 2 at LAX would impose on the domestic carriers using that facility, especially compared to non-domestic carriers using Bradley International Terminal?

MR. VON RAAB: The U. S. Customs Service, while reviewing the savings that the Service will achieve, considered the probable impact on the last two international carriers using Terminal 2 Federal Inspection Service facilities. We met with these two U. S. carriers and listened to the problems they perceive.

All of the Federal Inspection Services (APHIS, INS and Customs) must efficiently manage their available personnel in Los Angeles International Airport, minimizing duplicate operations. There are three U. S. international carriers currently using Tom Bradley International Terminal. None of these carriers have made us aware of any substantial problems. Apparently, the carriers in TBIT do not believe that there is a competitive disadvantage. Satellite 2 may have an advantage since airline logos are not permitted in TBIT but are allowed in SAT 2. We understand that this is often considered a major advertising advantage.

The carriers currently using SAT 2 say that they need to remain there to better serve the people who connect out of Los Angeles (LAX) on the same carriers' flights on the same day. However, when U. S. Customs polled SAT 2 travelers, during a five day period only 17 persons connected on the same airline on the same day, averaging 3 or 4 travelers each day. In February 1986, SAT 2 processed an average 435 international travelers each day. No carriers can connect to domestic flights within TBIT, since only international flights utilize this terminal.

The carriers also claim that having to park their aircraft at TBIT gates and then tow them to SAT 2 for the next movement will add to their transit time, require additional aircraft because of this additional time, and increase their costs (gate fees) for parking. To dispel this difficulty, Customs has already indicated that we will permit buses to move passengers from SAT 2 arriving international flights to TBIT, as long as sterility is maintained. This will make aircraft towing unnecessary, will not prolong aircraft transit time and will avoid gate fees. We understand that the gate fee is paid to a tenants association, which in turn pays the Los Angeles airport operator. TBIT is a common use facility; its users pay a prorated cost. More users results in less cost to each user.

The carriers in SAT 2 claim there is better service to travelers in SAT 2; but from the time a plane blocks (parks at a gate) until a passenger gets to the curb can take longer. In SAT 2 baggage must be rechecked after Customs examination and reclaimed near the exit. In TBIT the travelers exit Customs with their baggage in their possession, close to the curb.

MR. ROYBAL: Does the decision to cease staffing the Customs inspection facility at Terminal 2 seem fair in light of the fact that one of the domestic carriers agreed to renovate the facility at that terminal at considerable expense, in reliance on Customs Service's agreement to continue servicing international arrivals there?

MR. VON RAAB: In 1983 when LAX was building TBIT, one of the two remaining international carriers in SAT 2 asked U. S. Customs to continue processing arrivals there. We agreed reluctantly. The SAT 2 facility produces less effective processing by the Federal Inspection Services. The property also needed a general overhaul because of prolonged high volume use. TBIT was designed with sufficient processing capacity for all international traffic at LAX.

Based on an agreement signed by the requesting carrier and U. S. Customs, international flights continue to be processed at SAT 2. We signed the agreement in May 1984 and required the carrier to substantially renovate the facility and provide an acceptable facility by September 1, 1986. U. S. Customs was required to provide the specifications for this renovated facility during the necessary construction or modifications.

The carrier is only now completing the design of the facility. Construction has not begun in the 21 months since the agreement was signed. Completion of the Federal Inspection Services facility in SAT 2 is now promised by January 1, 1988. This is 15 months beyond the agreed-upon delivery date.

In another section of the agreement, U. S. Customs is required to consult with the signator carrier when there is a substantial decline in the number of international passengers cleared at SAT 2. In this event, U. S. Customs may cease providing services at SAT 2. In December 1985, U. S. Customs wrote to the carrier, knowing that many high volume flights would stop arriving at SAT 2 when the sale of certain routes was finalized. In that letter we expressed concern over the arrivals volume remaining in SAT 2 and continuing to staff the additional facility which is redundant and inefficient

In January 1986, we expressed concern over spending money on a renovated FIS facility given the probability that Customs, under the terms of the agreement, could not remain in SAT 2. The renovations were not proceeding on time, the volume of traffic had dropped, and P. L. 99-177 had mandated reductions in appropriated funds that limited Customs ability to retain enough personnel to continue staffing SAT 2.

In February 1986, after the impact of the GRH reductions was assessed, we announced our intentions to leave SAT 2.

MR. ROYBAL: Is the Customs Service aware that the number of passengers arriving from international flights will increase substantially in the near future at Terminal 2?

MR. VON RAAB: In July 1984, after Bradley International Terminal opened, daily passenger counts in SAT 2 were 1,313 while TBIT averaged 5,650 passengers daily. In February 1986, daily passenger counts in SAT 2 averaged 435 and TBIT averaged 4,914. SAT 2 had shrunk from 18.8 percent of traffic in July 1984 to 8.1 percent of traffic in February 1986. In December 1985, we publicly noted this trend and advised the carriers in SAT 2 that we needed to know their future expectations.

On January 9, 1986, one of the two carriers submitted schedules and probable sales that amounted to only 650 passengers per day. Adding the second carrier's probable loads, the daily counts remain less than 2/3 of the 1984 volume. We indicated that there would be too few arrivals for us to remain in SAT 2. On February 26, 1986, we announced our intention to leave. On February 28 the carriers presented schedules that averaged 1,441 daily passengers. This discredits the advance sales figures provided six weeks earlier.

The load factors to achieve these supposed passenger volumes is considerably higher than industry averages. Indeed, three of the proposed routes are from the North Atlantic, where independent industry sources indicate that the market is oversaturated and that profits will be difficult to achieve in these markets this summer.

MR. ROYBAL: How has the authorized level of staffing in the Los Angeles District changed since the Continuing Resolution?

MR. von RAAB: Since the passing of the Continuing Resolution on December 19, 1985, the permanent full-time staffing in the Los Angeles District has decreased by 11 from 574 to 565, as of March 7, 1986.

MR. ROYBAL: What are the differences between the number of positions in the table of organizations (TO), the authorized FTE positions, and the on-board staff in the Los Angeles District?

MR. von RAAB: As of March 7, 1986, the Los Angeles District showed 624 positions in the table of organization, 543 authorized full-time equivalents, and 565 permanent full-time on-board staff.

In addition, as of mid-March we had approximately 150 commitments for the Pacific Region, some of which are for the Los Angeles District.

MR. ROYBAL: How many authorized positions are in each job category, i.e., inspectors, import specialist, quota clerk, etc., and how many vacancies are there in each type of job in the Los Angeles District?

MR. Von RAAB: The breakout of the authorized positions and vacancies by job category for the Los Angeles District as of March 7, 1986, is as follows:

Category	Authorized Positions	Vacancies
Inspectors	324	16
Import Specialists	104	20
Canine Officers	11	1
Quota Clerks	8	2
Data Transcribers	23	0
Teller/Cashiers	10	1
Other	23	3
Total	503	43

MR. ROYBAL: Are any additional early retirement rounds scheduled for the Los Angeles district? If so, how will the anticipated loss of personnel affect the district?

MR. von RAAB: At this time we do not anticipate any additional early retirement rounds for the Los Angeles district.

MR. ROYBAL: The Customs Service recently decided to issue a revised directive for entry of textiles that established an exception for certain sample entries. Are affected importers being allowed sufficient time to conform to the new requirements, which will be effective March 9?

MR. VON RAAB: We believe that affected importers did have sufficient time to conform. This revised Directive was issued on February 28, 1986 and circulated to all our field offices on that date. Prior to that issuance Customs Headquarters representatives met with executives and attorneys of a number of large importing firms to resolve their sample importing problems. The revised Directive reflected the resolution of these sample issues. In addition, upon receiving the revised Directive, field offices immediately issued local notices to importers and Customs brokers pointing out the new change of procedures.

MR. ROYBAL: If, as some suggest, up to 20 percent of textile imports will be subject to the new entry requirements, will not a substantial new burden be placed on the Customs Service to enforce the new directive?

How is the Customs Service going to be able to handle the extra examination of documents and merchandise required by the directive, especially given that Congress and many other observers believe that there are not sufficient personnel at the ports now to prevent delays in the release of cargo?

MR. VON RAAB: Careful consideration was given to the impact on Customs workload prior to the issuance of this Directive. Detailed operational instructions were transmitted to Customs field offices to guarantee that these offices would be able to handle the additional workload placed on them.

MR. ROYBAL: Since the Customs Service decided that it makes sense to have a commercial sample exemption, why did it then exempt entries from certain countries?

If the countries involved were willing to waive any bilateral agreement requirements that might preclude the sample procedure exemption, would Customs object to informal entry procedures?

MR. VON RAAB: This commercial sample exemption from filing the formal entry for shipments under $250 only applies to those countries not listed in Attachment C of the Directive of February 28, 1986. Those countries cited in this Attachment had to be excluded from the sample exemption since exports therefrom valued at $250 or less are subject to import quota and visa requirements.

The issue as to the waiving of bilateral agreement requirements in order to allow informal entries for such shipments from countries listed in Attachment C is a policy question that should be addressed by the Committee for the Implementation of Textile Agreements (CITA), the textile policy making group.

MR. ROYBAL: How does Customs plan to allocate resources in this regard?

MR. VON RAAB: Customs is currently using career, part-time and contractor employees to staff ACS positions. If we do not have enough career employees in specific positions or geographic areas, we will move to consolidate functions or contract work out.

As we become more automated, both entry and manifest information will be transmitted electronically to us, eliminating the need for Customs personnel to key punch data.

We have made a very strong financial commitment to ACS and will continue to do so. We do not foresee the ACS budget being reduced in FY 86 or FY 87. Both our human and financial commitment to ACS is sincere. We see ACS as the cornerstone of our commercial activities for the 1980's and beyond.

MR. ROYBAL: How does Customs plan to provide hardware of sufficient capacity, with redundancy, to allow cargo processing seven days a week and twenty-four hours a day?

MR. VON RAAB: Based on capacity planning forecasts, Customs has identified the processing capacity required for ACS through 1990 to provide the required level of cargo processing. We have obtained procurement authority from GSA through the Department for the required capacity. A procurement for the required additional capacity, with upgrades in the out years, is in process. In FY 86, we will have an additional processor equivalent to the current ACS processor which will provide the required capacity and redundancy. Further, Customs has contracted for a risk analysis and disaster planning study. Based on this study, we will develop a long-term redundancy and disaster plan to insure continuous operations of cargo processing.

MR. ROYBAL: How does Customs plan to maintain the necessary clerical levels to operate and maintain and otherwise use the full capabilities of the Automated Commercial System?

MR. VON RAAB: Customs is actively pursuing a "single Service" concept to maintain required clerical levels. Currently, clerical support is provided on an intra-organizational basis. Personnel are assigned to perform Inspection and Control functions, or Classification and Value functions, etc. They are as a rule, unfamiliar with the duties of their peers. This is especially true at major, high-volume ports.

As functions are incorporated into ACS, clerical support will be trained and shifted to the area of greatest need, regardless of organizational structure, i.e., I&C, C&V, etc.

We are also in the process of contracting out some of our data input requirements.

MR. SKEEN: What does it cost to put together and maintain a detector dog team?

MR. VON RAAB: First year cost is $60,000 per team (includes training, procurement, vehicle and other equipment, overhead, etc.) Annual maintenance cost for salary, overtime, kenneling, supplies, etc., is $40,000 per team.

MR. AKAKA: The Congressional Budget Office (CBO) has estimated that adding 800 additional positions to the Customs Service would result in the collection of additional revenues of $150 million in FY 1986, $450 million in FY 1987, and $615 million in FY 1988.

Provide a copy of the executive summary of the CBO study for the record and state whether the Customs Service agrees with or disputes individual conclusions of the report.

MR. VON RAAB: I am unaware of the CBO study you just mentioned and am unable to comment on its content. However, I will reiterate that it appears that economic and other factors primarily determine revenue. As far as we know, there is no reliable analysis correlating revenue and staffing resources.

MR. AKAKA: Do you find the use of part-time staff to be an efficient and cost-effective means of responding to the problem of heavy "peak" volumes of arriving passengers such as we experience in Hawaii?

MR. VON RAAB: Part-time staff have certainly been an efficient and cost-effective resource to deal with heavy passenger arrivals and to extend hours of service U. S. Customs can provide without charging overtime costs to parties in interest who benefit.

These part-time employees were normally called to assist during peak arrival periods, or when there were not enough permanent staff available to handle normal volumes. Besides being used as primary inspectors, they worked as cashiers, vehicle or aircraft search team members, and passenger control aids. When used in these roles, they permitted more of our permanent inspectors to perform the critical passenger screening functions.

However, since Customs must implement the Gramm-Rudman-Hollings reductions, required in this fiscal year and the next, we cannot continue assigning our inspectors at government expense at times outside the required 8 a.m. to 5 p.m. By altering the inspector staffing pattern, we will increase the number of full-time permanent employees available 8 a.m. to 5 p.m. Therefore, we will reduce the number of part-time employees to effect the necessary savings.

MR. AKAKA: What was the proposed budget for part-time staffing in FY 1986 for the Honolulu Customs District 1) before you initiated any action in response the the Gramm-Rudman legislation, and 2) after the Gramm- Rudman sequestration took effect? Will any funding be available for part-time staff in the Honolulu Customs District after March 1, 1986?

MR. VON RAAB: The Honolulu District had two part-time staff on-board as of March 13, 1986. There was no reduction of part-time staff in this district as a result of Gramm-Rudman. Unless there is a change in workload, additional reductions, attrition, etc. this part-time staffing level should remain the same. Customs has no specific plans, at this time, to reduce the number of part-timers in the Honolulu District.

MR. AKAKA: What is the budget request for part-time staffing in the Honolulu Customs District in FY 1987?

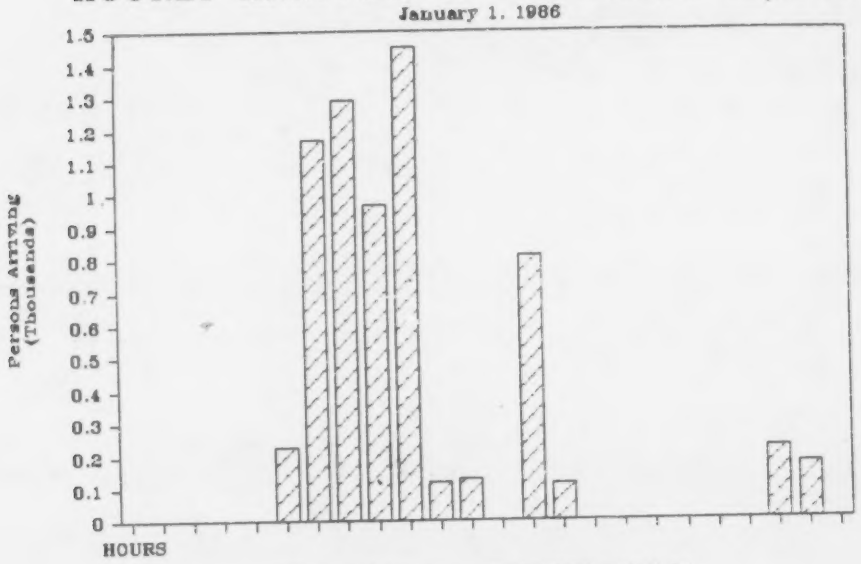
MR. VON RAAB: Customs budget estimates are developed based on servicewide projections. Resource requirements are broken down by activity and program, not by location or organization.

MR. AKAKA: On separate line graphs, chart the hourly volume of international passengers arriving at Honolulu International Airport for each day of the first two weeks of January, 1986.

MR. VON RAAB: I am submitting such graphs for your review. Overall, the heaviest passenger arrivals are occurring between 6 a.m. and 10 a.m. daily.

HOURLY ARRIVALS AT HONOLULU AIRPORT

January 1, 1986



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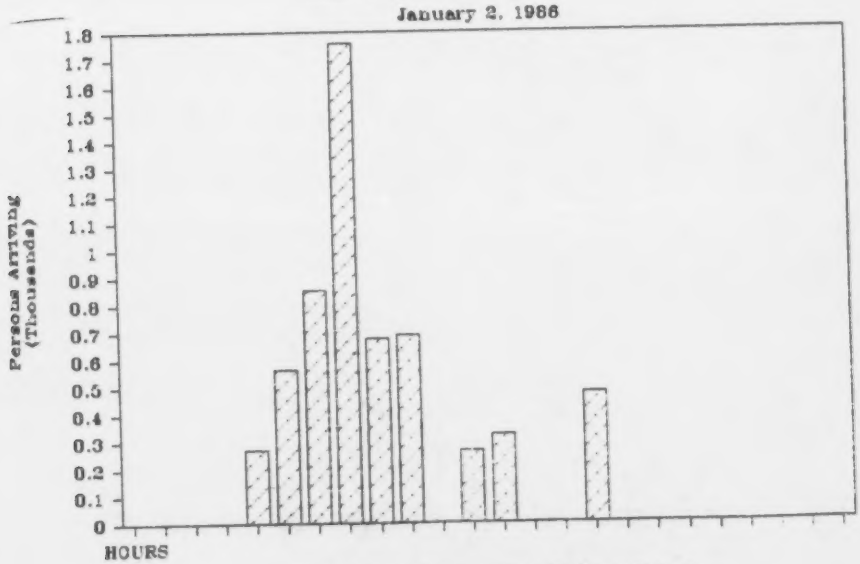

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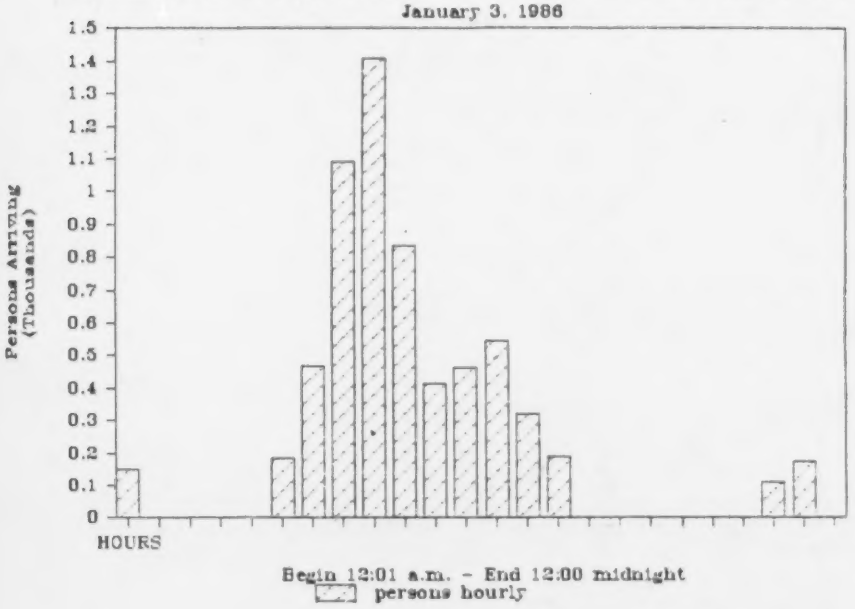
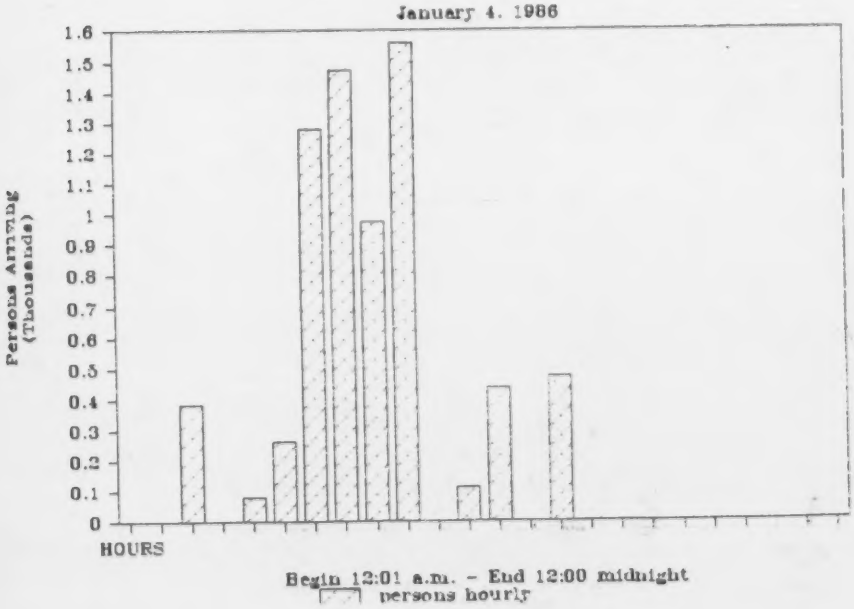
HOURLY ARRIVALS AT HONOLULU AIRPORT





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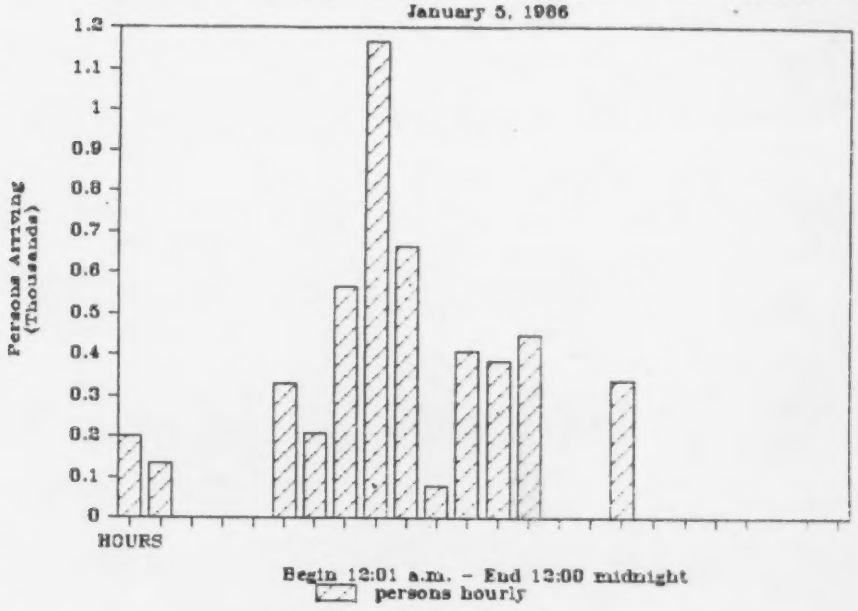

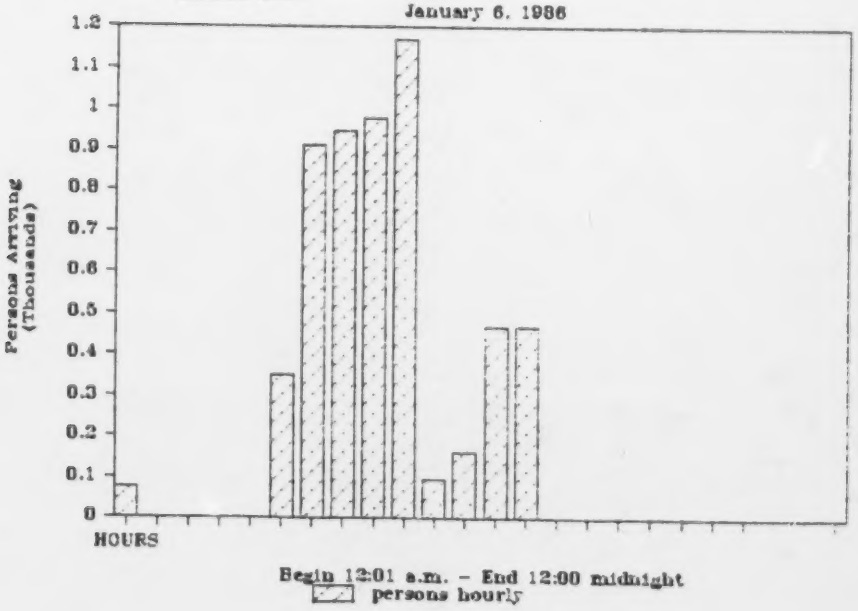

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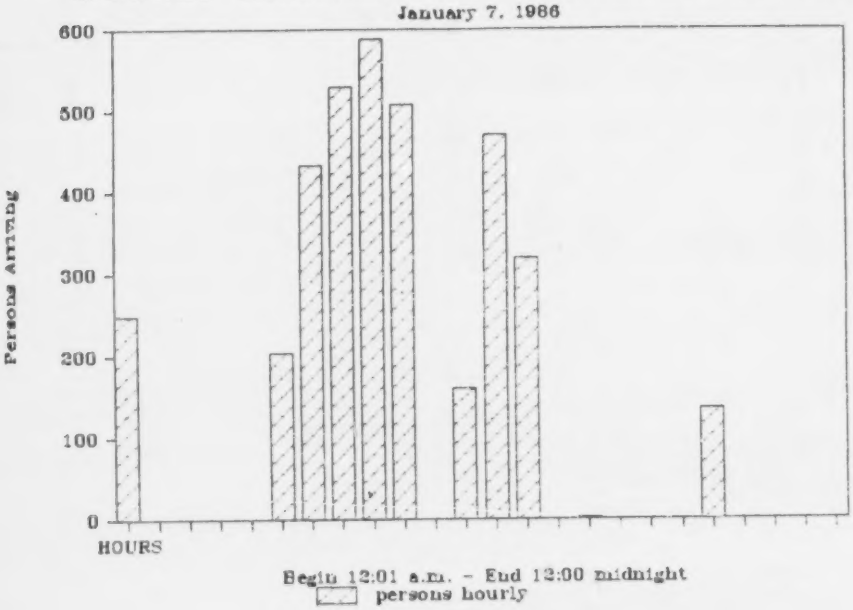

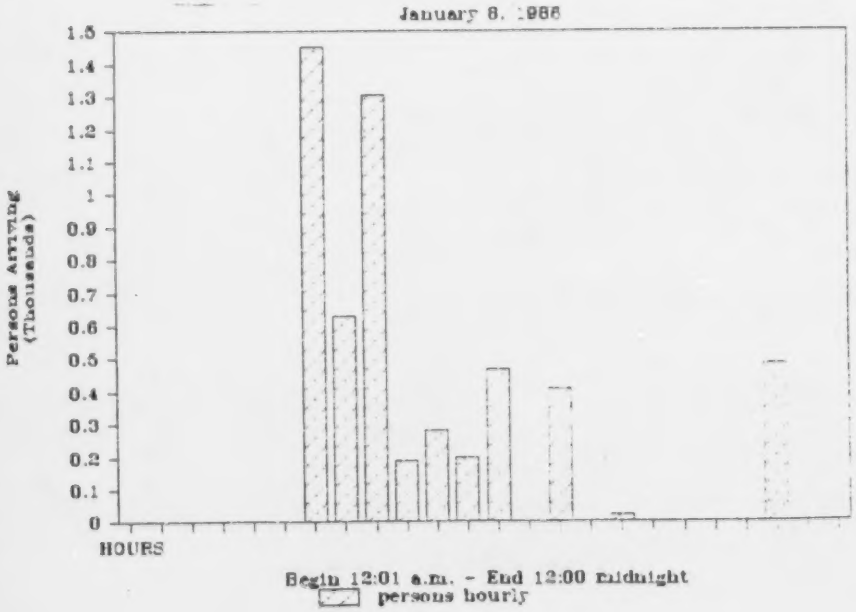

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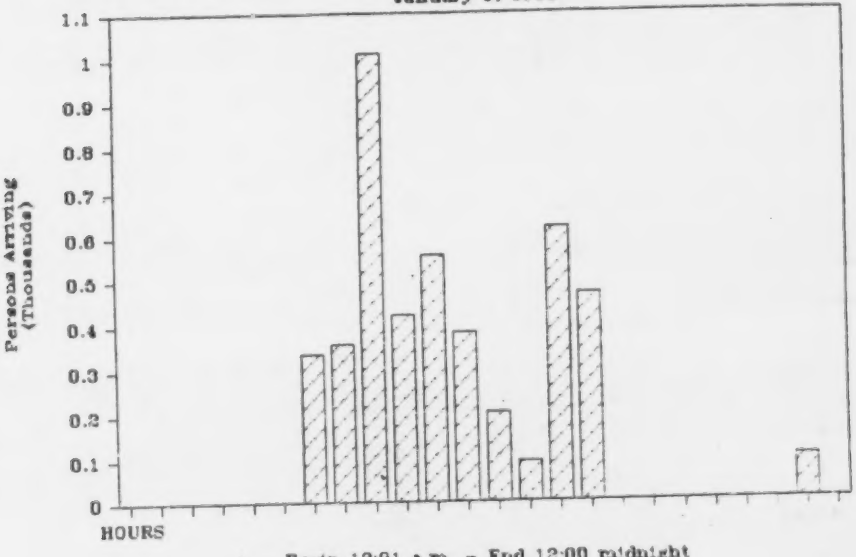
January 9, 1986



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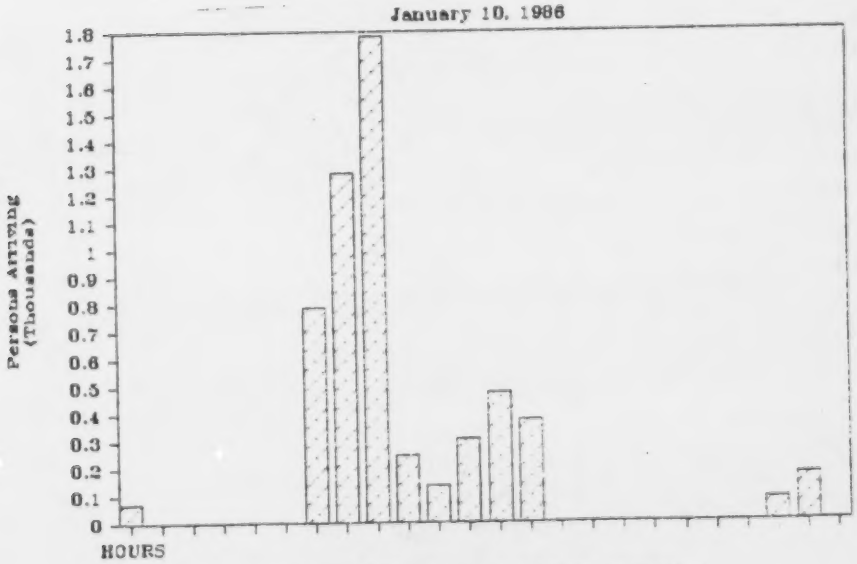
January 10, 1986



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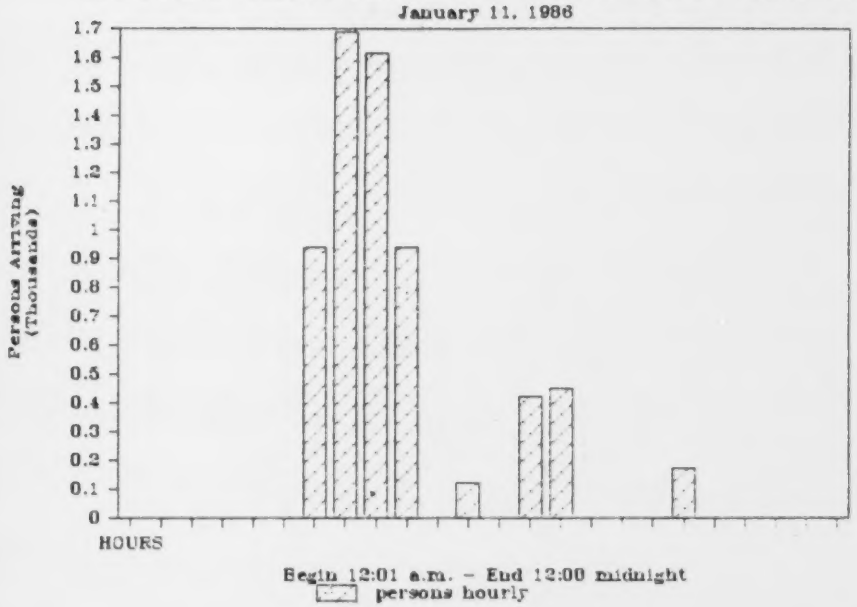
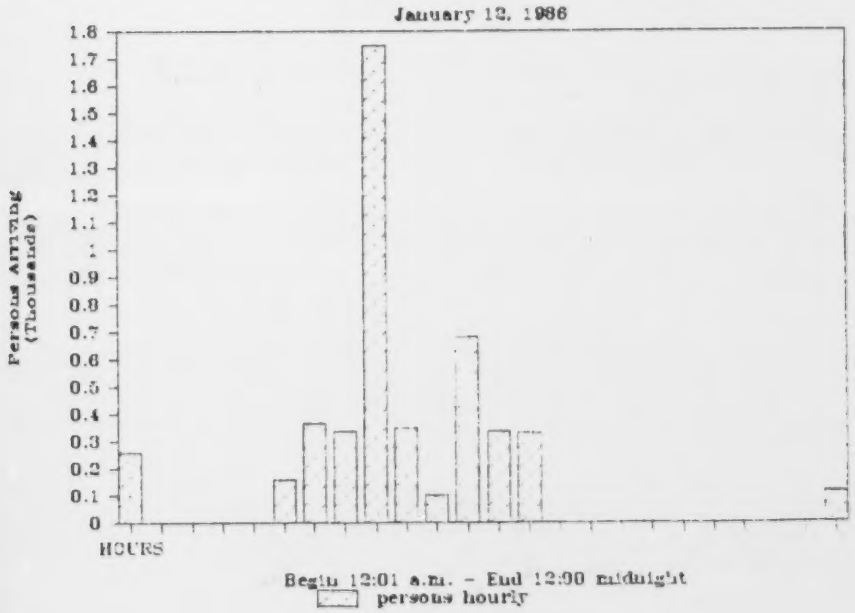
persons hourly

HOURLY ARRIVALS AT HONOLULU AIRPORT





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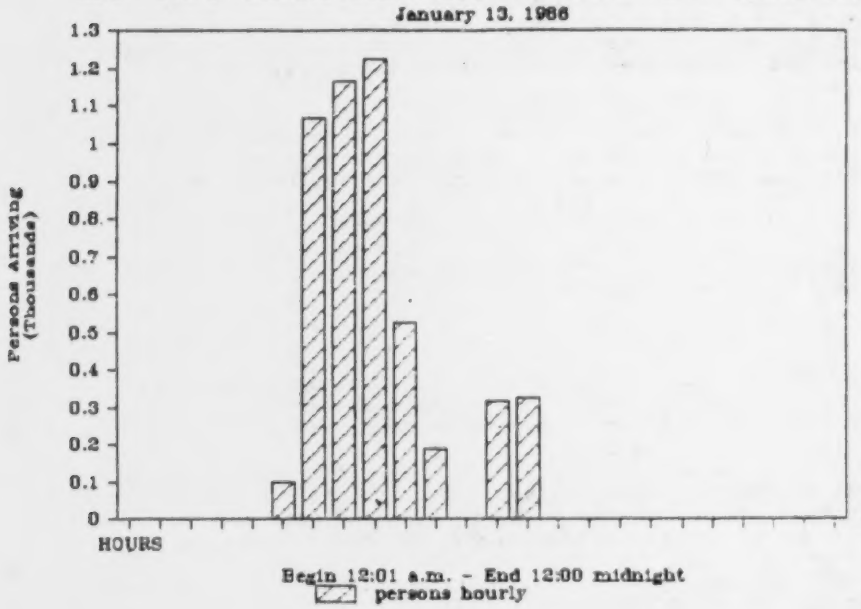
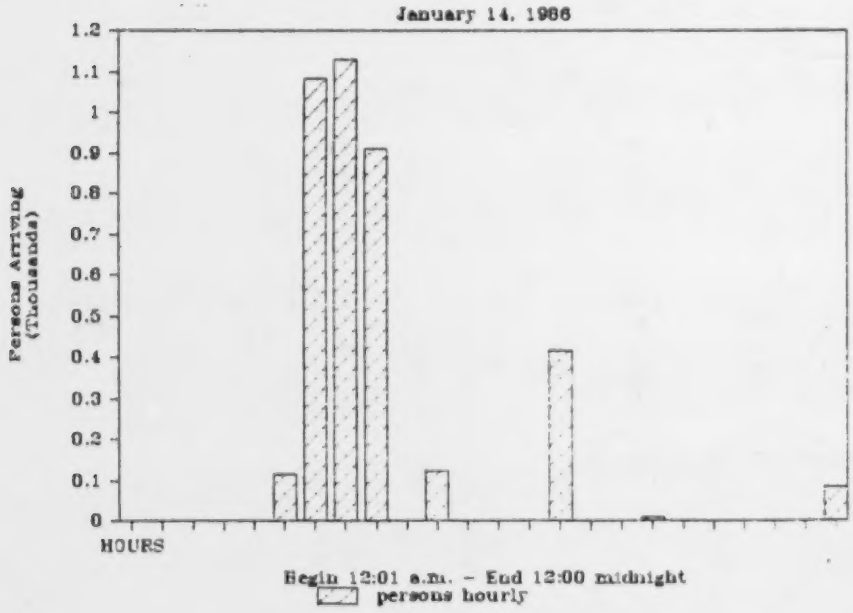




MR. AKAKA: For the record, provide a copy of the schedule of user fees proposed to be implemented in FY 1987 entitled: Representative Proposed Customs User Fees in which fees are proposed for specific categories of 1) commercial transactions, 2) commercial conveyances, 3) private conveyances, and 4) passengers.

MR. VON RAAB: The table requested is attached. Please note that this table provides only illustrative fees. The Administration proposal would authorize the Secretary of the Treasury to establish and collect processing fees. The actual fees would be set through the regulatory process allowing for public comment on the proposed fees. This table was done to only illustrate the type of fees which could be collected and approximate amounts of those fees.

MR. AKAKA: Explain the methodology used by the Customs Service to calculate the processing costs and establish individual fees for the commercial transactions category. Explain the methodology used by the Customs Service to calculate the processing costs and establish individual fees for the private conveyances category. Explain the methodology used by the Customs Service to calculate the processing costs and establish individual fees for the passengers category, and commercial conveyances.

MR. VON RAAB: The methodology used to calculate the fees for each of the four categories of fees is the same.

The fees are based on the Fiscal Year 1986 budget request and includes all of Customs costs for processing, except for purely enforcement activities. The budget items for Inspection and Control and Tariff and Trade Activities form the basis of the costs. All overtime currently being paid by commercial carriers or others who use Customs services and all current collections (such as those collected from commercial vessels under 19 USC 58A) were added. An additional FTE of 723 was added as Customs estimate of the staffing required to meet industry demands of passenger clearance time of 45 minutes from arrival and cargo release within 30 hours of entry.

The total cost of providing each service covered by a fee was then divided by the projected number of transactions in each category. It costs Customs less to process merchandise entries made through the Automated Commercial system (ACS) so the fee for merchandise entries made through ACS reflect that lower cost. Customs also considered collection requirements in the establishment of the fees as indicated by an annual fee for private boats and aircraft. An annual fee would simplify collection for both Customs and the private aircraft or boat operator.

MR. AKAKA: For the record, provide a copy of the schedule of fees originally proposed to be implemented in FY 1986 entitled: Customs User Fees.

MR. VON RAAB: The requested table is attached. Please note that this is a schedule of fees for illustration only. Under the Administration proposal, the actual fees would be set through the regulatory process.

MR. AKAKA: Why are there significant differences between the proposed fee schedule of this year as that proposed by Customs last year.

MR. VON RAAB: The fees differ between the two tables for several reasons, although I do not believe that the difference is "significant" as you indicate. Since the July 1985 table was done, costs of providing specific services have risen in several areas. Customs has refined some of the fees after discussion with industry members or associations, and some costs have been included in different fee categories.

MR. AKAKA: Explain why the fee for formal entries under the manual system has increased by as much as 30 percent for entries valued at between $5,000 and $15,000. (Last year, the proposed fee was $42 for entries valued between $5,000 and $15,000. This year, the proposed fee schedule calls for a fee of $52 for entries valued between $5,000 and $10,000 and $60 for entries valued between $10,000 and $15,000.)

GATT requires that fees be tied directly to the cost of actual service rendered. Article VIII of GATT provides that "all fees or charges of whatever character . . . in connection with importation or exportation shall be limited to the approximate cost of services and shall not represent . . . a taxation of imports or exports . . ."

MR. VON RAAB: The costs of providing services for merchandise entries has increased from FY 1986 to FY 1987. The actual ranges of fees has also been changed following a statistical review of actual FY 1985 transactions. The ranges of value of commercial entries has been changed to reflect the analysis of of the 1985 data and to ensure that importers of lower valued entries were not paying a higher percentage of the total transactions than were those who imported merchandise with a higher value. The fees remain based on the total costs of providing services for the processing of merchandise entries and the fees are defensible based on the total cost and are in compliance with Article VIII of the GATT.

MR. AKAKA: Given the fact that 1) the Administration's proposal calls for a uniform user fee schedule on Customs transactions despite the inevitable variation in costs to the Customs Service, and 2) the Administration's insistence that user fees revert to the general treasury, state in detail why you believe your user fee proposal is not in conflict with other international obligations under GATT.

MR. VON RAAB: The method of deposit of the fees is not relevant to the compatibility of the fees under the GATT. The fees are based on the actual costs of the services provided based on Customs public budget documents. The fees under the Administration proposal would be set through the regulatory process during which the basis of the fees would be publicly disclosed for comment.

I assume that your reference to "inevitable variation" refers to the costs of Customs processing at various geographic locations. There could be variations in cost based on geographic location; however, Customs must have a uniform fee to minimize collection difficulties and to discourage "port shopping" with importations coming through those ports with lower fees at the expense of the ports in locations which may have higher costs.

Once again, the fees are based on the total cost to Customs of providing the services.

MR. AKAKA: Do you anticipate that customs user fees will increase on a periodic basis based upon rising costs, and if so, by how much? If you do not intend to increase fees based upon rising costs, state why you believe this would not violate the GATT requirement that fees be limited to the approximate cost of services?

MR. VON RAAB: Under the Administration proposal, the fees would be established through the regulatory process. The fees could go up based on cost increases and fluctuations in workload. The fees could also go down based on the same factors. There is no way to predict the amount of either an increase or decrease. The annual setting of the fees ensures compatibility with the GATT requirement for fees based on costs.

It should be noted, however, that Customs will continue to stress a wide spectrum of productivity improvements, such as automation, selectivity and facilitation approaches, which are designed to hold down Customs costs and, therefore, the fees for Customs services.

REPRESENTATIVE PROPOSED
CUSTOMS PROCESSING FEES

3/11/86

TYPE	FEE	COLLECTIONS	TRANSACTIONS
Commercial Transactions			
Formal Entries			
$2500 and under Manual	$ 25*	15.4	614,000
$2501 - 5000 Manual	37	17.6	476,000
$5001 - 10000 Manual	53	33.5	632,000
$10001 - 15000 Manual	61	22.5	369,000
$15001 - 50000 Manual	75	68.9	919,000
$50001 and over Manual	90	48.5	539,000
$2500 and under ABI	12	7.4	614,000
$2501 - 5000 ABI	17	8.1	476,000
$5001 - 10000 ABI	25	15.8	632,000
$10001 - 15000 ABI	32	11.8	369,000
$15001 - 50000 ABI	38	34.9	919,000
$50001 and over ABI	47	25.3	539,000
		309.7	
Drawback	125	5.6	45,000
Informal Entries			
Manual	10	15.0	1,500,000
ABI	2	2.0	1,000,000
Mail (Dutiable)	8	5.8	720,000
In-bond (Manual)	14	15.4	1,100,000
Foreign Trade Zone Entry	63	2.3	36,000
Annual Brokers Permit	102	.5	5,000
Non-conforming Vehicles	115	4.6	40,000
Commercial Conveyances			
Vessels	350*	33.3	95,000
Trucks	3*	12.6	4,200,000
Rail Cars	1.50*	2.1	1,400,000
Private Conveyances			
Yachts/Boats Annual Fee	100*	1.6	16,000
Aircraft Annual Fee	200*	4.4	22,000
Vehicles	1**	86.0	86,000,000
Commercial Passengers			
Rail	.50	1.8	3,500,000
Air	2.50*	80.0	32,000,000
Sea	1	3.9	3,900,000
	TOTAL	586.6	

Collections are reported in millions of dollars. Collections column may not add to total due to rounding.

*Includes overtime and other fees currently charged for these transactions.

**Administration proposal would authorize collection of a fee for private vehicles, however, in order to minimize capital investment Customs would not initially collect the fee on private vehicles.

July 10, 1985

CUSTOMS PROCESSING FEES

TYPE	FEE	COLLECTIONS	TRANSACTIONS
*Formal Entry		257.7	6,600,000
ABI under $2,500	$ 5		
ABI $2,500 - $5,000	15		
ABI $5,000 - $15,000	28		
ABI $15,000 +	38		
Manual under $2,500	28		
Manual $2,500 - $5,000	36		
Manual $5,000 - $15,000	51		
Manual $15,000 +	61		
*Informal Entry		18.8	6,000,000
ABI	$ 1		
Manual	4.25		
*Drawback	$110	5.3	48,000
*Warehouse Entry		5.2	100,000
ABI	$ 52		
Manual	75		
*Dutiable Mail	$ 6	4.8	800,000
*In-bond	$ 15	28.?	1,800,000
*Foreign Trade Zone	$ 50	1.5	28,000
*Brokers License	$125	.6	4,800
Commercial Vessels		38.9	99,000
Under 100 net tons	$ 25		
Over 100 net tons	397		
Commercial Aircraft	$ 33	12.0	370,000
Trucks	$ 3	10.4	4,100,000
Trains (Per Car)	$ 2	~~2.5~~ 4.2	1,600,000
Private Yachts/Boats	$ 50 (annual)	3.2	70,000
General Aviation	$ 66	7.9	119,000
Passengers			
Train	$ .25	.9	3,900,000
Air	2	70.0	35,000,000
Vessel	2.50	9.2	3,800,000

*Included in 1981 proposal as recommended by the Grace Commission

MR. COLEMAN: What is the purpose of the Re-organization?

MR. VON RAAB: The Customs Service is not conducting a Reorganization as defined by the Federal Personnel Manual. Rather, we are consolidating two organizational components, criminal investigations and tactical enforcement into a single unified law enforcement organization structure. The objectives of the consolidation are:

1. Establish one fully integrated, law enforcement organization structure within Customs.

2. Establish a single Customs Law Enforcement supervisor at all geographical locations.

3. Establish the GS-1811 Series (Criminal Investigator) as the exclusive occupational series for all law enforcement positions within Customs.

MR. COLEMAN: What classification of personnel will be affected by the Reorganization?

MR. VON RAAB: All Customs Patrol Officers have been or will be given the opportunity to convert from their current series GS-1884 to the GS-1811 (Criminal Investigator).

MR. COLEMAN: How many Customs Air Officers will have their job, duty or assignment changed?

MR. VON RAAB: There are a total of 43 Customs Air Officers at the GS-12 grade who have been offered the opportunity to be permanently reassigned to a Special Agent position. These Officers have also been given the option of remaining in the Air Program at the GS-11 level. The number of officers who will have their job, duty or assignment changed will depend upon what each effected officer chooses to do.

MR. COLEMAN: Will additional personnel be necessary to replace specially trained individuals?

MR. VON RAAB: The Customs Air Officers currently perform two distinct functions, they investigate and they function as crew members on our aircraft. They have been given the choice to do one or the other but not both since by doing both, each function has suffered. Depending upon the choice made by each officer, we will either have to replace the individual as an investigator or as an aircraft crew member. Positions have already been set aside to ensure that both functions will be properly staffed.

MR. COLEMAN: What impact will be felt by the personnel losing their grade?

MR. VON RAAB: All officers who select an assignment that will involve a change to lower grade will be given full salary protection so that there will be no immediate or future loss of salary. There is no tangible impact that we can identify that has not been considered and dealt with to each officer's benefit.

MR. COLEMAN: Will the retraining aspect of the re-organization be a critical and traumatic transition to the Customs mission?

MR. VON RAAB: The training program we have developed in conjunction with the consolidation is designed to insure that all officers have the training required to perform the duties of their assigned position. We expect that during this transition period, we will retain our current and former level of enforcement effectiveness and that the level of effectiveness will increase as our training program better prepares our Officers to perform the duties of their positions.

MR. COLEMAN: What authority will be surrendered from the Customs enforcement program or the interdiction function when everyone becomes a Special Agent (i.e. narcotics's investigations under the auspices of a currency investigation)?

MR. VON RAAB: Customs investigative authority for drug interdiction investigations will actually be enhanced by the reorganization. Customs Air officers have never had investigative authority, but evolved into the function because there was no other organization who's efforts were dedicated to the interdiction of air smugglers. The reorganization will establish responsibility for the investigative function with the properly authorized investigative office within Customs. The Drug Enforcement Administration has delegated authority to selected Customs Special Agents to conduct Title 21 narcotics investigations. Customs will coordinate their investigations closely with DEA, so there will be no need to investigate those cases under the auspices of a currency investigation.

MR. COLEMAN: What significant radar protective coverage is offered to Texas and New Mexico area?

MR. VON RAAB: No significant (low level) coverage on a fixed or permanent basis is available from Brownsville to Arizona. Occasional coverage occurs when E-3A (AWACS) missions are scheduled or when Customs utilizes a short range (60 miles) mobile radar system. Some coverage is provided by the FAA facilities at Houston, Texas, and Albuquerque, New Mexico; however, these facilities are not effective in detecting low flying aircraft.

MR. COLEMAN: Is the U.S. Customs Office of Enforcement conducting a reorganization of it's law enforcement personnel?

MR. VON RAAB: We are not conducting a reorganization of our law enforcement functions as defined by the Federal Personnel Manual. We are consolidating the two prinicipal law enforcement components of the Customs Service, the Office of Investigations and the Office of Tactical Enforcement (Patrol) into a single unified law enforcement structure responsibile for the full range of our law enforcement efforts.

MR. COLEMAN: How is the selection being accomplished?

MR. VON RAAB: There are various categories of officers currently in the Customs Patrol Officer Series (GS-1884) that are being converted to positions in the Criminal Investigator Series (GS-1811). The basic categorization is by grade levels:

A. GS-5/7/9

B. GS-11/12

C. GS-13 and above.

Each category follows a different process for conversion from GS-1884 to GS-1811. In each situation an individual that switches series but stays at the same grade level, must first volunteer for conversion. If he/she is found suitable, the conversion from GS-1884 to GS-1811 is made. For those who seek both conversion from the GS-1884 series to the GS-1811 series and a promotion, our Merit Promotion procedures apply. These procedures are in accordance with OPM requirements and guarantee fair and equitable treatment for all applicants.

MR. COLEMAN: Are all "GS" grade level officers within the U.S. Customs Patrol being selected in a fair and equal manner?

MR. VON RAAB: We believe that the procedure we have and will continue to follow guarantee fair and equal treatment for all officers who apply for conversion from the GS-1884 to GS-1811 series, as well as those who seek promotions in conjunction with the conversion process.

Private & Public Graphic Agency

MR. COLEMAN: I understand that GS-13 Custom Patrol Supervisors are not having to give up a grade, but are actually being given supervisory and Special Agent jobs without competing with other Special Agents or the Air Officers

MR. VON RAAB: Our process for converting officers from the GS-1884 series to the GS-1811 series allowed that a GS-1884-13 Supervisory Patrol Officer who was found suitable for such reassignment could be reassigned to a GS-1811-13 Supervisory Special Agent position. Each case was evaluated on its own merits, and only those individuals fully qualified to assume the responsibilities of a Supervisory Special Agent position were assigned to such positions. There is no requirement that an individual moving between positions at the same grade level must compete for the new position. No Special Agent or Air Officer is being denied any rights when we fill a position at a certain grade level (GS-13) with an individual who had previously been promoted to that grade level.

MR. COLEMAN: Why does this selection method exist in the selection of persons to the Special Agents position among the GS-13 and GS-12 positions?

MR. VON RAAB: We have availed ourselves of the options available to us under the provisions of the Federal Personnel Manual. In essence, those regulations allows that once an individual has been promoted to a certain grade level before can be assigned to any position at that grade, so long as he/she is found both suitable and qualified.

MR. COLEMAN: Will the expertise of the Air Officer be lost when he is finally selected as Special Agent?

MR. VON RAAB: If a current Air Officer chooses to become a Special Agent, he will, upon conversion to a Special Agent, be assigned to an investigative group devoted exclusively to providing investigative support to the Air Program. By making these assignments, we will guarantee that we will not lose the Air Officer's expertise but rather we will more fully utilize it.

MR. COLEMAN: If the U.S. Customs Office of Investigations is going to take over all the positions for the sake of criminal investigations concerning smuggling narcotics into the U.S. using aircraft, has the "White Paper" agreement between U.S. Customs and the Drug Enforcement Administration of the Justice Department been revised or have the agreements in the "White Paper" been terminated. What is the status?

MR. VON RAAB: The Memorandum of Understanding between the U.S. Customs Service and the Drug Enforcement Administration regarding narcotics smuggling is still in effect as originally written. However, the Attorney General has authorized Customs Special Agents to conduct Title 21 investigations. The DEA Administrator will delegate Title 21 authority to Customs Special Agents involved in narcotic-related investigations on a case-by-case basis, and air smuggling investigations will be coordinated with DEA offices as they always have.

MR. COLEMAN: If no change has been made in the "White Paper," then why all the reorganization of the Air Officer position? If this is so, the Air Officer position would be better off in Air Operation continuing to perform anti-air smuggling criminal investigations.

MR. VON RAAB: Prior to the reorganization of the Office of Enforcement the Customs Air Officer performed both "bust crew" duties and investigative functions regarding air smuggling. The result of this was that there were no dedicated full time investigators, nor were there dedicated, always available "bust crews." The reorganization has resolved this problem and has established a dedicated force of full time Special Agents to conduct air smuggling investigations and a dedicated full time force of Air Interdiction Officers to perform "bust crew" responsibilities. All Special Agents appropriately belong under the jurisdiction of the SAC offices.

MR. COLEMAN: Where is the most vulnerable area for air smuggling along the Mexico-U.S. border? Why?

MR. VON RAAB: The entire border is equally vulnerable due to the lack of radar detection systems capable of detecting low level aircraft. This problem is exacerbated by the mountainous terrain and sparse population. Smuggler aircraft can fly at low level, using mountain valleys to avoid radar detection, and can deliver their cargo of contraband to any number of isolated air strips, dry lake beds, or county roads with little risk of detection by law enforcement personnel or the general public.

MR. COLEMAN: What would help relieve the situation of easy entry by air smugglers into the U.S.?

MR. VON RAAB: To adequately address the low level aviation smuggling threat along the southwest border, a low level look down radar capability; either airborne or land based is required. Currently the most effective system available is an airborne platform equipped with a 360° look down radar (APS-125 or APS-138). An additional requirement is an enhanced reporting system for aircraft arriving/departing over the southern border with a 1-hour advance/departing notice and mandatory transponder codes.

MR. COLEMAN: Is the Customs Service responsible for the detection and apprehension of ground smugglers in the border area?

MR. VON RAAB: Yes, Customs Patrol officers were the primary enforcement arm of USCS for ground smuggling interdiction at the border - primarily between the ports of entry. The majority of Patrol officers at the border have been or are being absorbed by Customs Office of Investigations. The responsibility for interdiction of ground smugglers will remain with the Customs Service and will be under the jurisdiction of the appropriate Special Agent in Charge.

MR. HOYER: Is Customs aware of the problems of other governmental agencies involved in processing gray market auto imports?

MR. VON RAAB: Only in a general way. The volume of nonconforming vehicle imports has increased tremendously over the past few years due to the relative strength of the dollar vis a vis various European currencies, creating unanticipated increases in their processing workload. We have been advised of a recent tendency toward a turnaround, as the dollar has weakened.

MR. HOYER: If so, to what extent is Customs aware of DOT and EPA problems with processing compliance reports?

MR. VON RAAB: While Customs is aware that processing problems exist, we have no direct knowledge of their nature or their scope. It is our impression that some of the problems stem from incomplete submissions to DOT and EPA on behalf of importers by the firms who have modified their autos, causing extensive correspondence between the agencies and importers in attempts to clarify matters.

MR. HOYER: Is Customs experiencing any problems in discharging its obligations with regard to EPA and DOT compliance activity on gray market autos?

MR. VON RAAB: Our biggest problem seems to be late receipt of approval or waiver documents from these agencies, causing Customs to initiate redelivery and/or liquidated damage demands for vehicles which have been approved by the agencies.

MR. HOYER: Is Customs aware of the extent of EPA and DOT backlogs on processing EPA and DOT compliance packets for gray market autos?

MR. VON RAAB: We are aware that there are backlogs. It has been our impression, based on conversations with representatives of these agencies, that their backlogs are declining to manageable levels.

MR. HOYER: Is Customs aware if the EPA and DOT are current with regard to processing EPA and DOT compliance packets for gray market autos for the periods:

January - February 1986?

November - December 1985?

September - October 1985?

July - August 1985?

January- June 1985?

July - December 1984?

January - June 1984?

July - December 1983?

January - June 1983?

MR. VON RAAB: No.

MR. HOYER: Does Customs know the amount of the backlog of compliance packets for each of the above periods? What are the amounts?

MR. VON RAAB: No. Customs does not know.

U.S. CUSTOMS SERVICE

SUMMARY OF BUDGET ESTIMATES

FISCAL YEAR 1986

The Customs Service appropriation, as approved by the Congress in the Continuing Resolution (P.L. 99-190) for FY 1986, totals $800,075,000 and 14,042 average positions. Adjustments are proposed through a reduction pursuant to P.L. 99-177 and a proposed rescission as follows:

Proposed Adjustments:

(1) P.L. 99-177 -- In compliance with the 4.3 percent Gramm-Rudman reduction, the Salaries and Expenses, Air Program Operations and Maintenance, and Forfeiture Fund appropriations were cutback $34,400,000 and 777 average positions.

(2) Proposed Rescissions -- rescissions of $4,169,000 for Salaries and Expenses and $19,275,000 for Air Operations and Maintenance are included in support of the Administration's deficit reduction initiative.

The proposed authorized budget level for FY 1986 with the above proposals is $742,231,000 and 13,265 average positions for Customs operating appropriations.

FISCAL YEAR 1987

Consistent with the Administration's goal of reducing the Federal budget deficit and curtailing outlays in FY 1987, the Customs Service proposes an appropriation level of $756,065,000 -- a reduction of $44,010,000 from the level authorized in the FY 1986 Continuing Resolution and $13,834,000 above the proposed level requested for FY 1986.

To achieve the proposed appropriation level of FY 1987 and meet uncontrollable cost and workload increases, the Customs Service proposes to:

-- achieve savings from a selective hiring policy which will reduce staffing by 385 average positions ($9.7 million);

-- achieve management savings of 385 average positions ($11.5 million) from productivity increases through automation and operational efficiencies resulting from streamlining port operations; and,

-- non-recur prior year costs ($3.7 million).

Within the overall budget allowance of 12,500 average positions and $756.1 million, the Customs Service will:

- process 294.7 million persons, 93.3 million conveyances, 7.4 million entries of merchandise, and collect an estimated $15.1 billion in revenue;

- enhance the operations of the Automated Commercial System (ACS) ($3.0 million) by expanding selected processing modules. The major innovation of ACS is the Automated Broker Interface (ABI), and the associated integrated database, both in combination will eliminate the need for Customs to key redundant data while beginning the era of the paperless entry;

- upgrade the existing Treasury Enforcement Communications System (TECS) ($8.0 million) by incorporating state-of-the-art hardware, software, and database technology to achieve the following:

  - greatly enhanced data manipulation capability
  - expanded access to all users
  - integrated dissemination that provides access to other commercial and enforcement systems
  - improved response time and collection of enforcement data;

- continue participation in the President's task force on organized crime and drug enforcement; and,

- operate a full-scale air and marine interdiction program as well as maintain an overall enforcement effort.

SALARIES AND EXPENSES, UNITED STATES CUSTOMS SERVICE

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1986
(Dollars in Thousands)

	Perm. Pos.	Ave. Pos.	Amount
1986 Appropriation Enacted by Congress	14,123	14,041	717,000
Adjustments:			
1) Proposed Rescission			(9,169)
2) Reductions Pursuant to P.L. 99-177	(726)	(777)	(10,831)
Proposed Authorized Level for FY 1986	13,397	13,264	682,000
Estimate, FY 1987	12,677	12,494	693,000

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1986

	Appropriation FY 1985		Authorized Level FY 1986		Budget Estimate FY 1987		Increase or Decrease (-) for FY 1987					
							Total Changes		Program Changes		Other Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
1. Inspection & Control	6,548	298,503	6,693	304,801	6,176	307,475	(427)	2,674	-	5,440	(427)	(2,766)
2. Tariff & Trade	3,197	160,613	3,131	173,323	2,890	174,847	(241)	1,474	-	2,000	(241)	(1,526)
3. Tactical Interdiction	1,658	101,733	1,751	99,903	1,701	104,311	(50)	4,388	-	850	(50)	3,600
4. Investigations	1,639	98,158	1,779	103,923	1,727	106,367	(52)	2,444	-	1,760	(52)	684
Unobligated Balance		10,907										
Total appropriation, authorized level & budget estimate	13,042	669,734	13,264	682,000	12,494	693,000	(770)	11,000	0	11,000	(770)	0
Permanent positions established	13,670		13,397		12,677		(770)		0		(770)	

A. Unobligated balance includes $9,656,000 in no-year and multi-year resources.

B. Resources for tactical interdiction and investigations in FY 1986 and FY 1987 reflect the recent transfer of Customs investigators and related resources to investigations in support of tactical interdiction.

SALARIES AND EXPENSES, UNITED STATES CUSTOMS SERVICE

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987
(Dollars in Thousands)

	Inspection and Control			Tariff and Trade			Tactical Interdiction			Investigations			Total		
	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount
Program Changes:															
A. Automated Commercial System	0	0	0	0	0	3,000	0	0	0	0	0	0	0	0	3,000
B. Treasury Enforcement Communications System II	0	0	5,440	0	0	0	0	0	800	0	0	1,760	0	0	8,000
Total, Program Changes	0	0	5,440	0	0	3,000	0	0	800	0	0	1,760	0	0	11,000

SALARIES AND EXPENSES, UNITED STATES CUSTOMS SERVICE

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987
(Dollars in thousands)

	Inspection and Control			Tariff and Trade			Tactical Interdiction			Investigations			Total		
	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount
Other Changes:															
A. Increases necessary to maintain current levels:															
1. Net cost of within grade salary increases			1,516			758			425			334			3,033
2. Grade to grade promotions			340			171			96			75			682
3. Payments to Employee Compensation Fund			510			254			143			112			1,019
4. Increased costs of employee benefits			891			447			250			197			1,785
5. Payment to Social Security Trust Fund			155			78			44			35			312
6. Federal Building Fund			4,523			2,262			1,267			996			9,048
7. Payments to GSA for special services			465			233			130			102			930
8. Increased postage costs			570			250			117			63			1,000
9. Cost of FTS and other communications			1,664			832			466			367			3,329
10. Reimbursements of services of other governmental agencies			300			454			336			68			866
11. Personnel and payroll services			100			50			28			22			200
12. Equipment procurement			300			150			84			66			600
13. Annualization of operation and maintenance costs (FY 85 supplemental)			0			0			1,980			0			1,980
Subtotal, Maintaining Current Levels	0	0	11,342	0	0	5,639	0	0	5,374	0	0	2,437	0	0	24,792

SALARIES AND EXPENSES, UNITED STATES CUSTOMS SERVICE

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987
(Dollars in Thousands)

	Inspection and Control			Tariff and Trade			Tactical Interdiction			Investigations			Total		
	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount
B. Reductions, Nonrecurring Costs and Savings:															
1. Reductions:															
a. Selective hiring policy	(194)	(172)	(4,820)	(92)	(91)	(2,280)	(50)	(50)	(1,755)	(53)	(52)	(1,306)	(389)	(385)	(9,663)
2. Nonrecurring Costs:															
a. Fiber Optics			(300)										0	0	(300)
b. Integrated Data Telecommunications Network			(200)			(199)			(200)			(200)	0	0	(799)
c. Used Lease)						(500)							0	0	(500)
d. Implementation of centralized administrative services			(1,000)			(416)			(511)			(247)	0	0	(2,062)
3. Management Savings:															
a. Productivity savings derived from automation initiatives				(152)	(150)	(5,766)							(152)	(150)	(5,766)
b. Operational efficiencies derived from streamlining port operations	(237)	(235)	(7,700)										(237)	(235)	(7,700)
Subtotal, Reductions, Nonrecurring Costs and Savings	(431)	(427)	(14,100)	(244)	(241)	(7,165)	(50)	(50)	(1,766)	(53)	(52)	(1,753)	(778)	(770)	(26,792)
Total, Other Changes	(431)	(427)	(2,766)	(244)	(241)	11,526	(50)	(50)	3,600	(53)	(52)	684	(778)	(770)	0
Total, Increases or Decreases in FY 1987 Compared with Proposed FY 1986 Authorized Level	(431)	(427)	2,674	(244)	(241)	1,674	(50)	(50)	4,900	(53)	(52)	2,444	(778)	(770)	11,000

Salaries and Expenses, United States Customs Service

Impact of
FY 1986 Gramm-Rudman-Hollings Budget Reduction

- Description of impact on bureau program:

  The staffing reduction by 777 average positions will be obtained from selective hiring, increased productivity, and from efficiencies derived from streamlining port operations.

- Effect on workload:

  Automated systems and improved selectivity will sufficiently increase productivity, reducing the need for manual processing, and maintaining efficient workload processing.

- Effect on services:

  Projected impact on services will be minimal. Inordinate delays or revenue losses are not anticipated.

- Effect on ability to fulfill bureau mission:

  - We do not anticipate any significant impact on enforcement effectiveness, but caseloads and other enforcement actions will be increased per officers and some support functions will be reduced.

  - Vessels already scheduled for the Marine Program will permit Customs to maintain program effectiveness.

  - Training for enforcement officers will be conducted on a multi-year basis.

Salaries and Expenses, United States Customs Service

SUMMARY JUSTIFICATION OF FY 1987 BUDGET ESTIMATES

General Statement

The United States Customs Service is the primary border enforcement agency and a major revenue producer. Customs administers and enforces the Tariff Act of 1930 and some 400 other provisions of laws and regulations of 40 other Federal agencies governing international traffic and trade. The mission is multi-faceted and mandates the Service to:

- Control, regulate and facilitate the movement of carriers, persons and commodities between the United States and other nations.
- Protect the American consumer and the environment against the introduction of hazardous and noxious products; and protect American industry and the American worker against unfair competition from foreign manufacturers.
- Assess, collect and protect the revenue accruing to the United States from duties, taxes and fees incident to international traffic and trade.
- Detect, interdict and/or investigate:
  - Smuggling and other illegal practices designed to gain illicit entry into the United States of prohibited articles, narcotics, drugs and other contraband.
  - Fraudulent activities calculated to avoid the payment of taxes and fees, or to evade the legal requirements of international traffic and trade.

- Illegal transfers of critical technology to foreign nations for the building of their military systems, thus posing a threat to our national security.

- Illegal international trafficking in arms, munitions and currency.

This budget submission includes proposed appropriation levels for FY 1986 and FY 1987. For FY 1986, requested salaries and expenses are $682,000,000, a decrease of $35,000,000 from the appropriation enacted under P.L. 99-190, and an increase of $12,266,000 above the FY 1985 appropriation. The decrease includes a reduction of $30,831,000 pursuant to P.L. 99-177 and a proposed rescission of $4,169,000. The decrease of $35,000,000 will be achieved by reducing 777 average positions and by cutbacks in other program areas.

For FY 1987, requested salaries and expenses appropriations are $693,000,000, an increase of $11,000,000 from the proposed level of FY 1986. Included in FY 1987 are $24,792,000 for increases necessary to maintain current operating levels and non-recurring costs of $3,661,000. Also, included are various program reductions and management savings initiatives related to selective hiring, productivity improvements, and operational efficiences derived from streamlining port operations.

Initiatives included are: $3.0 million for continued development and implementation of the Automated Commercial System (ACS), and $8.0 million for upgrading the Treasury Enforcement Communications System (TECS) to be used by Customs enforcement officers. These management initiatives are vital for increasing Customs commercial processing productivity and enforcement effectiveness. They also support the selectivity approach in both these program areas.

In FY 1987, Customs will continue to build on earlier accomplishments by increasing the use of automated approaches in enforcement and commercial operations. During this past year, Customs has continued its highly successful enforcement operations. We are continuing the effort to disrupt Florida based narcotics smuggling organizations, but we

are also expanding these efforts to the Southwest border. A coordinated interdiction effort, encompassing all Federal and local agencies, is operating at our border. In FY 1985, Customs seizures were up 18.1 percent for heroin, and 83.5 percent for cocaine. Further support was also gained from Special Operations directed at specific smuggling modes particularly by small boats, and at critical border locations. Operation Blue Lightning achieved excellent results against smugglers attempting to smuggle from the Bahamas. We believe long-term disruption was achieved against this smuggling mode. Significant progress also has been achieved in expanding automated systems for merchandise processing, revenue collections and enforcement. For each of these programs, Customs intends to continue and enhance its operations. Further details on these priority activities, as well as a full description of all major programs and selected workload data, are provided in the following sections.

1. Inspection and Control

The mission of Inspection and Control is the effective enforcement of Customs laws and regulations and other agency requirements for carriers, cargo and persons entering and departing the United States. This includes the collection of duties, enforcement of quotas, marking, trademark, copyright, and licensing agreements; detection and interception of contraband, including narcotics, pornography and merchandise; and insuring that importations meet all necessary requirements for legal entry into the United States. Customs goal is to carry out this mission efficiently, without burdening the public by the imposition of excessive regulatory requirements, processing times and inordinate costs.

Continuation of its enforcement effectiveness when confronted with increasing workload and increasing costs is still a major long-term problem of the Customs inspectional program. To accommodate this workload growth, Customs inspections have maintained enforcement effectiveness by intensive selective inspections, made possible by the introduction of computer assisted processing and reduced paperwork. The results have been improved enforcement, more efficient use of resources and better facilitation for passengers and cargo. Automated systems continue to be established both to decrease the

paperwork burden for the inspector and to provide the information needed for effective selectivity. In addition, Contraband Enforcement Teams (CET) are achieving excellent results, using the selectivity approach, inspecting the enormous amount of cargo arriving at ports nationwide.

Expanded use of automated systems, selectivity and innovative techniques have substituted for traditional labor intensive processes, improving overall efficiency while handling increased workloads. Enhancements for facilitating and for effectively enforcing the law are: Red/Green processing; One-Stop; Selective Examination and Law Enforcement Cargo Technique (SELECT); automated manifest clearance; and On-Line In-Bond Processing. Improved enforcement effectiveness has been maintained by concentrating resources in priority areas and the implementation of special enforcement teams.

Enforcement and facilitation are viewed as compatible program objectives, and Customs will continue to balance the expeditious processing of people and goods with strict enforcement of laws against fraud and smuggling. Since most people serviced by Customs are law-abiding, inspectors will focus their efforts only on the "high-risk" passengers and cargo while allowing all other travelers and goods to receive minimal attention. In FY 1987, we anticipate further progress on efficient passenger and cargo facilitation as well as improvements in combatting fraud and drug smuggling.

FY 1986 Strategies:

During this fiscal year, the Inspectional Program has placed particular emphasis on improving enforcement techniques at the nation's borders as well as selectivity systems at major airports. Inspectional staff at all land border stations have received training in the Border Processing Improvement Plan (BPIP). To coordinate and support inspectional enforcement efforts, Operational Analysis Units (OAU's) are identifying individuals and transactions which pose the highest risks. These high risk areas then receive greater attention. Selectivity also is enhanced by the cooperative efforts with foreign Customs services which provide pre-arrival information on passengers from high risk countries.

Customs' joint initiatives with international air and ocean carriers are designed to increase enforcement productivity. A primary goal is obtaining advance data about inbound persons, carriers and shipments so that inspectors can pinpoint their efforts.

Other enforcement and selectivity efforts include: increased emphasis on high-risk private aircraft and small vessels; new model seaport operations in various ports; RED/GREEN passenger inspection systems at several major airports; the increased use of roving inspectors, citizen by-pass and one-stop selectivity at many large airports; vastly improved canine enforcement; the standardization of commercial fraud initiatives; the implementation of an audit inspection system; and the testing of new examination/enforcement systems for cargo control.

By FY 1986, Customs automated cargo selectivity system will be operating in a total of 35 ports. The cargo selectivity system will be incorporated into the multi-functional Automated Commercial System (ACS). Expansion will continue during FY 1986 to New York and to northern border ports. During FY 1985, Customs successfully implemented a revised on-line automated in-bond system as a module of ACS. The master in-bond system, which allows multiple cargo moves on a single document, has been a significant time saver for Customs and the importing community and will continue to be expanded. Enhancements to all these systems will be directed towards gathering intelligence for risk identification.

In addition, a number of other initiatives are being pursued to streamline further the entire cargo processing system. These include the implementation of successful initiatives developed at several selected major ports. Our current approach aims at institutionalizing, at the line inspector level, the concept of selectivity by freeing up and concentrating inspectional resources for more flexible functional operations. Analytical teams, composed of inspectors and supported by auditors, have demonstrated that a post-audit program can be extremely effective. As appropriate, applicable forms of this approach will be implemented at high volume ports.

FY 1987 Strategies:

In keeping with Customs twin objectives, high speed passenger and cargo processing and maximum interdiction of drug traffickers and smugglers, the Inspectional Program will further expand the use of the automated cargo selectivity system, the automated in-bond system, One-Stop, and the Automated Commercial System (ACS). The increasing infusion into the U.S. of illegal drugs -- especially cocaine -- and fraudulent imports makes it imperative for Customs to expedite the release of "low-risk" travelers and cargo so that highly suspicious travelers and merchandise can undergo intensive examination. Along these lines, efforts will be directed towards better intelligence gathering for accurate identification.

At several major ports, inspectors have been testing numerous methods for achieving effective selectivity and post-audit programs. Results clearly indicate the success of those tests, and Customs will become increasingly reliant on the team approach. Such methods are crucial to comprehensive law enforcement, especially in this era of increasing commerce, travel and smuggling.

During the past fiscal year, Customs has improved passenger processing. This trend will continue, especially since all inspectors at the nation's largest airports have been trained in observational profile techniques and stress analysis. The extremely successful Red/Green self-selection mode encourages the rapid processing of law-abiding travelers, and the Customs declaration form has also been revised to shorten preparation and primary screening time.

The Border Processing Improvement Plan (BPIP) has resulted in improved land border processing. Among the tools used to expedite processing and enhance enforcement effectiveness at those ports of entry are: land border profiles, detector dogs, selectivity, roving inspectors, and pedestrian observations. These techniques have been teated and all border inspectors have received training in these proven methods.

Over the long term, Customs seeks maximum inspectional enforcement results via appropriate combinations of processing and interdictory techniques. Innovations will be explored, and methods like the inspector-observer, walk-through narcotics detector and automated passport reader will increase inspectors' ability to process travelers quickly and detect violators just as efficiently.

Passenger Processing:

Passenger Processing goals for Fiscal Year 1987 will build upon the initiatives begun in Fiscal Years 1985 and 1986. Among the major initiatives will be regulatory changes to private aircraft and small boat reporting procedures. Under the proposed rulemaking, private aircraft considered as a relatively high-risk category will undergo stringent reporting and inspection changes, and more detailed justifications will be required for aircraft operators to be considered for overflight exemptions (bypassing one of Customs designated airports at our southern border). More stringent reporting requirements are also being reviewed for small boats.

By taking advantage of the efforts and information provided by carriers at overseas locations, Customs will be better able to control the passenger processing environment. Customs' improved control of the passenger processing environment will facilitate the continued identification of internal conspiracies. Automatic passport readers will continue to be studied so that this technology will be available as more and more nations begin to issue machine readable passports. These readers will automatically query TECS data bases, thus allowing our inspectors time to conduct more extensive interviews for the selection of high risk travelers. The use of walk-through vapor detectors keying on certain narcotics will be available at some airports, allowing the screening of large numbers of arriving passengers quickly and efficiently. All of these techniques will allow the average traveler faster processing while quickly identifying persons requiring a more intensive inspection.

Cargo Processing:

Customs continues to streamline its cargo processing. These efforts are aimed at facilitating the flow of legitimate cargo through our air and seaports while focusing on suspect shipments. As the volume of trade increases, criterion must be developed and disseminated to inspectional personnel so that rapid, yet effective, determinations can be made. For example, Customs inspectors select cargo shipments for intensive examination based on the country of origin, type of commodity, or the importer of record. This approach has been enhanced by continuing to refine the cargo selectivity system in the Commercial System. The revision of the basic entry document, CF 3461A, as well as the development and implementation of the Optical Character Reader (OCR) technology will all contribute to our ability to facilitate entry of merchandise without degrading enforcement. Improved cooperation of sea carriers is reducing the illegal use of vessels in narcotics smuggling. This approach is similar to the initiatives with commercial air carriers whose routes originate or transit high-risk source countries.

In the in-bond area, Customs has implemented a new automated in-bond system as part of ACS. A number of initiatives are underway concerning the movement of goods in-bond. The PAIRED (Port of Arrival Immediate Release and Enforcement Determination) test program is being expanded in which an entry may be filed at one port for merchandise arriving at another port. Also, Customs is developing automated manifest sub-systems for both sea and air cargo. These will speed the notification of the release of merchandise to the importing carriers and eliminate manual reconciliation of inventory records. The sea sub-system has been tested at a major port and will be implemented nationwide.

To conserve resources, Customs introduced a centralized devanning for containers which are to be inspected. Instead of inspecting the containers at importers premises, they are directed to Customs designated stations. As a result of centralized devanning, Customs can concentrate its resources (inspectors, detector dogs, electronic detection devices, data systems, etc.) while improving our enforcement capabilities and providing better service to the importing community.

Contraband Enforcement Teams (CET):

While the strategy of using CET to conduct more intensive examinations of high risk passengers and cargo has been successful, future efforts will focus on more specific targeting of larger, more significant seizures. This will be accomplished through the use of Operational Analyses Teams and threat assessments, pre-arrival manifest information, more thorough container and aircraft searches, air and vessel carrier agreements, and international cooperation. This approach is intended to counter the mobility of the smugglers, and to concentrate on the larger quantities of narcotics to be found in containerized cargo shipped in commercial aircraft.

Canine Enforcement Program:

Customs Canine Enforcement Program is integrated in the overall Customs enforcement strategy in two areas: drug detection and international cooperation. Canine Enforcement Program resources are primarily aimed at interdicting narcotics; however, its training center assists foreign governments in developing similar programs which contribute not only to international cooperation, but also to significant seizures of drugs destined for the United States. While the objective is narcotics interdiction, the program provides benefits (interagency/international cooperation, public education and deterrence) which also contribute to the Federal goal of interdicting narcotics at our borders.

Port Security Program:

Because of threats against inspectors along the southern border, some of which were carried out, nine ports were closed in February 1985. In late May 1985, a security plan was implemented to return these ports to normal service. Seven of the nine ports were subsequently reopened. Basic security and personal alarm systems were installed at all southern land border ports. Further improvements, such as video surveillance and recording systems, lighting, barriers and speed bumps, and improved communications, will be tested or installed during FY 1987. Our efforts to ensure the safety of Customs officers and the security of our port facilities will continue to be a high priority.

Salaries and Expenses, United States Customs Service

Customs efforts to balance the expeditious processing of people and goods with effective enforcement of the laws against fraud and smuggling will continue in FY 1987. Efforts will be implemented to achieve this balance economically and effectively, at minimum cost to both government and industry. Having fully implemented selectivity -- by concentrating on the minority of wrongdoers while facilitating the law-abiding majority -- Customs expects significant results in FY 1987.

The following table presents major workload factors related to the Inspection and Control activity.

	Fiscal Years (In Thousands)				
	1983	1984	1985	1986*	1987*
Carriers					
Ground vehicles.	88,907	89,066	89,033	-	-
Vessels.....	238	226	271	-	-
Aircraft.....	537	475	419	-	-
Total.....	89,682	89,767	89,723	91,517	93,347
Persons Arriving					
Land.....	251,903	253,284	253,164	-	-
Vessel.....	3,402	3,348	3,889	-	-
Air.....	28,509	31,168	32,468	-	-
Total.....	283,814	287,800	289,521	288,938	294,716
Processing Cargo					
Formal entries..	5,314	6,421	6,823	7,079	7,433

* Projected Workload.

2. Tariff and Trade

The mission of the Tariff and Trade program arises from the Tariff Act of 1930, which requires that Customs carry out appraisement, classification and collection of duties from imported merchandise. While carrying out the complex task of processing international trade transactions for revenue and compliance with a multitude of laws and regulations, policies and procedures are developed to: insure uniformity and accuracy in the classification and valuation of merchandise; enforce laws and regulations that neutralize or eliminate trade practices harmful to the country; foster growth in international trade that is directly linked to U.S. trade policy for the Department of Treasury as well as the laws and regulations of over 40 other Federal agencies; and enforce international codes and agreements that provide for uniformity of trade procedures.

A major issue in Tariff and Trade continues to be how to facilitate cargo and entry processing and still maintain high compliance levels while dealing with an increasingly complex workload. Currently, Customs is coping with increased entry workloads through the use of increased selectivity supported by automated processing. The automated system is designed to select entries for intensive examination by import specialists. The system improves uniformity of processing by increasing communications between inspectors and import specialists, as well as between Customs officers in different sections of the country. The selectivity system has reduced the need for examinations, but more discrepancies have been detected, producing a more efficient use of personnel.

The Tariff and Trade Program is building on previous accomplishments and goals. Efforts to automate commercial operations are continuing. Equipment for linking field operations to the national computer and an automated interface with importers, carriers, and other agencies is implemented. As part of Tariff and Trade Program participation in Customs' overall enforcement effort, the testing of the wind tunnel narcotics detector will be completed and import specialists will expand their role in fraud teams, special analytical teams and in assessment of penalty cases. Of particular interest, the laboratory is supporting the Fraud Program by increased sampling analyses and through the use of sophisticated technology.

Commercial fraud detection also is a high priority effort. Customs' emphasis on deterring fraud and revenue protection has been significantly enhanced by the implementation of a centralized approach for coordinating and disseminating information and intelligence to field units. Furthermore, special fraud teams consisting of import specialists, special agents, and regulatory auditors are now operating in almost all districts. The teams are responsible for developing leads by applying multi-disciplinary expertise of commercial transactions to detect potential fraudulent activities. Import specialists also use their expertise to develop sound information for criminal and civil violations. These special teams increase our success in prosecuting major violators.
By automating the appraisement system, the large volume of entry paperwork can now be more cost-effectively and efficiently processed. The Automated Commercial System (ACS), which integrates existing commercial systems under a comprehensive data bank, will implement a combined merchandise processing system, thus eliminating duplication while assuring full management information. As part of the system, the Automated Broker Interface (ABI) not only reduces paperwork, but also decreases the costs of Customs and the importers. The revision/elimination of certain forms and regulations will reduce overhead costs for both Customs and the business community, and replacement of the current Tariff Schedules of the United States with the International Harmonized System of tariff classification will facilitate international trade.

FY 1986/1987 Strategies:

Major goals of the Tariff and Trade Program are to: oversee a smooth transition into and implementation of the Harmonized System of Nomenclature thus facilitating importation and exportation of merchandise; assure uniformity in treatment and provide for comparability of statistics; continue refinement of the Automated Commercial System in the areas of ABI, port authority and other trade interfaces; selectively facilitate the movement of cargo; improve productivity and cash flow, moving Customs closer to the paperless entry system; continue our commitment to the detection, deterrence and prosecution of commercial fraud; and, move toward greater reliance on post audit approaches.

The program will achieve these goals largely through increased use of technology, automation, and resource tradeoffs. Since staffing will not increase significantly, we will continue to rely more and more on the increased use of our automated systems, post audit review and technology advances. We will utilize selectivity and bypass criteria to identify high-risk merchandise for examination and document review, freeing available resources to concentrate on commercial fraud detection. We will utilize ABI and trade interfaces to reduce the burden on Customs personnel to input entry and manifest data. As a result of reduced staffing resources in all areas, we will continue our movement toward a greater reliance on an overall post audit approach to maximize the facilitation of entry processing, provide enforcement support in the detection of commercial fraud and identify additional revenue recoveries.

Automated Commercial System (ACS):

The Automated Commercial System (ACS) is now processing merchandise entries, revenue collections, entry liquidations, and an increasing number of broker transactions. The Automated Commercial System (ACS) is a single system which integrates all aspects of Customs commercial cargo processing. ACS provides the medium for merchandise processing and release, cargo examination, entry selectivity, duty collection and liquidation. Through a number of integrated functions, it provides information on bonds, quota, fines, penalties, and forfeitures, calculation of interest on bills, and statistical data, which can be utilized by other agencies, such as Census. In FY 1987, the additional funding requested ($3.0 million) will be used to continue implementation of the Automated Broker Interface (ABI), expanding selectivity and reducing entry documentation. ABI is a sub-system which permits customhouse brokers to interface directly with the Customs computer in order to transmit entry data on imported merchandise. The Selective Entry Processing module is designed to identify high/low risk entries for quick processing with substantial savings in personnel resources. Ultimately, the system will permit Customs, through the use of pre-programmed criteria, to process and liquidate selected entries with a minimum of hard copy documentation.

Automated Broker Interface (ABI):

As an integrated part of the Automated Commercial System (ACS), the implementation of the Automated Broker Interface (ABI), as well as an integrated data base, will eliminate the keying of redundant data, which is a major step in reducing manual paperwork. Since current procedures require extensive back-up documentation for each entry in order to determine proper classification, the elimination of this requirement for all but the entries selected for intensive review will reduce the amount of paperwork both for Customs and importers and speed up processing. It will not only reduce the volume of paper, but also link Customs processing directly with the importing community. At this time, about 20 percent of the entry summaries presented to Customs are prepared on computers. The number is projected to grow to 50 percent by the end of 1986. Under these circumstances, we have a unique opportunity for both the trade community and Customs to improve their respective processing by applying this available data processing capability to electronically interchange data entry. ABI is now operational with an expanding number of brokers. Ultimately, this system will save manual filing of millions of documents, while assisting in error correction prior to Customs processing and reducing costly rehandling of transactions by both Customs and the trade community.

Harmonized System:

All merchandise imported into the United States is classified into one of over 6,000 commodity provisions of the Tariff Schedules of the United States. On January 1, 1988, it is expected that the United States will replace the current tariff system with the new Harmonized System. The Harmonized System, which has been developed over the last 12 years, is intended to provide the U.S. and other trading nations with a common basis for classifying merchandise. It will also be used as the basis for classification of merchandise exported from the U.S.

The tariff classification of merchandise is fundamental to the administration of U.S. trade and tariff laws. Tariff classification determines not only the rate of duty to which merchandise is subject, but also whether it is subject to quota or other type of

restriction. Internally, Customs uses the tariff classification to determine which entries of merchandise will be subject to intensive examination by inspectors and import specialists, and to identify entries of merchandise subject to investigation by Customs agents.

Other Activities

In FY 1987, Customs will continue to give commercial fraud activities a high priority. We will continue our multi-discipline fraud teams, utilizing the expertise of Special Agents, Import Specialists, Inspectors, Regulatory Auditors, Legal Counsels, and technical staff. High risk commodities such as textiles, steel, coffee, and electronics will continue to be targeted, as will the detection of copyright and trademark violations.

New stricter entry requirements are now being implemented for textile shipments to preclude increased abuses such as circumvention of quotas, misclassifications, false invoicing and undervaluation of shipments. Effective February 1, 1986, commercial textile importations from all countries will require a formal entry regardless of value. Shipments from countries with whom we have textile agreements (38 countries) will also require "live" formal entry, which means that an examination of documents and goods must occur, and quota availability be established, before the goods are released. Personal shipments accompanying the traveler, regardless of value, will be exempt from these requirements. Unaccompanied personal shipments will also be exempt unless the shipment requires a visa or exempt certification. Those subject to visa or exempt certification will also require a "live" entry. We will continue such blitz programs as Operations Overweight and Heavy Metal which have resulted in detection of widespread abuses and illegal trade practices.

The following table presents the workload factors related to the Tariff and Trade activity.

	FISCAL YEARS (Thousands)				
	1983	1984	1985	1986(Est.)	1987(Est.)
Formal entries filed....	5,314	6,421	6,823	7,079	7,433
Mail Packages received..	38,846	44,176	51,984	53,700	55,900
Informal entries.....	3,143	3,373	3,680	3,909	4,204
Total collections (Millions of Dollars)...	$ 9,785	$12,540	$13,236	$13,908	$15,103

3. Tactical Interdiction

Established to protect the vast border areas, the Customs Tactical Interdiction Program maintains mobile air and sea interdiction units dedicated to countering a growing narcotics and contraband smuggling threat. Since drug smuggling constitutes a majority of this contraband, our efforts are concentrated on stemming the flow of narcotics into this country.

Customs tactical operational approach aggressively counters today's massive smuggling by redeploying units to meet a geographically shifting drug problem and by concentrating resources in high threat areas. For the past several years, primary emphasis for the tactical interdiction units has been the Southeast border, particularly Florida and the Gulf states where massive drug smuggling is a continuing problem and where illegal currency enters and leaves daily. It is this area which is the financial center for international drug trafficking. The smuggling threat involves private aircraft and vessels, as well as cargo and air passengers. Private yachts and "Mother" ships (ocean-going vessels) sailing directly from Colombia and other source countries, regularly land vast quantities of marijuana along the Florida and Gulf coasts. While smuggling of cocaine via private aircraft has continued in this area, there are indications that the smugglers are shifting their operations to other border locations, particularly the Southwest border, in response to the more effective enforcement effort in the Southeast.

We anticipate that the smuggling threat will continue to increase in FY 1987, and that the very lucrative nature of the narcotics trade will allow and encourage smugglers to employ new smuggling and state-of-the-art technology to evade enforcement efforts. Customs tactical interdiction forces must meet this challenge by placing more emphasis on the development and application of tactical intelligence, the use of high technology and the mobility to place resources at the right place at the right time. Therefore, a major enforcement initiative is the modification of operational approaches to available information and to use tactical intelligence in the interdiction process whenever possible.

Marine Program:

Operating in conjunction with the Aviation Interdiction Program, the Customs Marine Program protects the sea approaches to the nation's borders and has confronted a growing smuggling problem. In response to smuggling in fast boats, Customs will be placing in operation its own fast interdiction vessels. These vessels will be used for surveillances, waterside raids, intelligence gathering, interdiction, and to counter large-scale smugglers using "mother" ships, stashes on off-shore islands and "air drops." Recent seizures indicate that large-scale smuggling by vessel, while still active in the Southeast and Gulf Coast, is increasing along the Pacific, Mid-Atlantic and New England coastal areas.

Tactical Enforcement has developed a two-pronged coordinated marine interdiction program. In order to counter the threat of narcotics smuggling by private and fishing vessels, the successfully tested Marine Enforcement Modules will be stationed in as many locations as resources permit. Each module will consist of specially trained personnel and state-of-the-art marine equipment. Each team will be responsible for developing tactical information on smuggling in its local area and for interdicting marine smugglers. In addition, in order to combat smuggling at major seaports via commercial vessels, Customs has developed a strategic tactical enforcement presence in selected seaports. Customs officers develop information targeting specific persons, groups and vessels, and conduct intensive vessel searches to locate and seize concealed narcotics.

The placement of marine interdiction resources at the optimum place requires a systemized approach, utilizing both surface and marine target detection methods. The Bahamas aerostat will be modified with "lookdown" radar for better detection of small vessels. A feasibility study regarding the use of lighter-than-air airships is in progress. This capability will efficiently and effectively accomplish the crucial phases of detection, sorting and tracking in the enhanced marine strategy. Establishment of a Joint Marine Interdiction Command Control Center will provide a central facility for linking various detection input to be used for command decisions for coordinated interdiction responses.

The installation of state-of-the-art communications and computer equipment will increase the use of real-time intelligence for operations and eliminate the communications void that currently exists. Customs will install HF/SSB radios in vessels, aircraft, and command centers. This communications equipment, together with computer links, should significantly increase operational effectiveness and improve overall safety of tactical interdiction personnel. The marine interdiction program will proceed with plans to replicate the successful marine enforcement modules in as many locations as resources will permit in order to counter the threat of narcotics smuggling by private and fishing vessels on the Atlantic, Gulf of Mexico, and Pacific Coasts. Each module will consist of specially trained personnel and state-of-the-art marine equipment. Each team will be responsible for developing tactical information on smuggling in its local area and for interdicting marine smugglers.

Aviation Interdiction:

In response to smuggling by private aircraft, the Customs Aviation Interdiction Program approach concentrates on detection, interception, and tracking in an integrated configuration in high threat areas. This approach was established and has proven effective in South Florida. The air strategy seeks: (1) to detect and apprehend persons involved in the smuggling of contraband by private aircraft; and (2) to provide assistance to other interdiction efforts of Customs and other agencies in the law enforcement community. The air interdiction effort uses strategic and tactical intelligence to select the optimum times and places for deployment of interdiction modules at Customs Air Units located at Miami, Jacksonville, New Orleans, San Antonio, El Paso, Houston, Tucson and San Diego. Resources at the branches consist of high speed jet interceptors, equipped with radar and infrared detection sensors, long range tracker aircraft, high performance helicopters and single and multi engine support aircraft. The Aviation Interdiction Program also utilizes airborne and land based radar to enhance detection and tracking capabilities. In addition, Customs is operating four P-3A detection aircraft supplied by the Navy and modified with an APG-63 radar. These aircraft complement the in-place detection support.

Customs believes that increased effectiveness has resulted from the implementation of strong, centralized management of the program and the establishment of the East and West C3I's (Command, control, communications and intelligence centers). This new management configuration has resulted in greater control and flexibility for responding to the shifting smuggling threat. See more detailed program description included in the separate Air Program (O&M) budget request.

FY 1986/1987 Strategies and Accomplishments:

According to recent intelligence estimates, lucrative drug trafficking will continue to be a major national problem despite strong deterrents. To counteract smuggling by air, Customs will continue to improve air interdiction methods. The module concept, backed by increased intelligence and centralized management, will make it possible for Customs to target its efforts to counteract a shifting smuggling threat, thereby increasing the effectiveness of its operations. With regard to the anticipated increased drug smuggling by sea, the marine interdiction program will continue with its special strike forces.

Special Operations:

The marine program has undertaken several special operations during FY 1985 in order to keep drug smugglers "off balance" and to target specific areas with the aim of interdicting substantial quantities of drugs. Both objectives were achieved during Operation Blue Lightning, inaugurated April, 1985, as part of an NNBIS Coordinated multi-agency operation designed to disrupt the flow of drugs through the Bahamas. Operationally, Blue Lightning targeted certain Bahamas islands because, according to intelligence reports, they were drug storage sites and trans-shipment points.

In support of Customs activities, the Coast Guard sealed off certain islands while sweep teams, including Bahamian police, were flown in to search for the drugs. Outside the Bahamas, coordinated operations were conducted with state, local, and other federal law enforcement agencies. As the enforcement pressure in the Bahamas increased, smugglers

moved their drugs in an attempt to elude seizure; however, prepositioned enforcement units intercepted over 5,500 pounds of cocaine, 36,000 pounds of marijuana and 26 vessels during the two week operation. Since then, successful follow-up operations have been ongoing with the excellent cooperation of the Government of the Bahamas.

Blue Lightning Strike Force:

As a result of the success of this special operation, the Customs Service established the Blue Lightning Strike Force from June 28 through September 29, 1985. The Strike Force coordinated multi-agency interdiction activities on a 24-hour basis along the Florida Coast. The Strike Force targeted contact vessels and aircraft approaching the U.S. The 90-day operation resulted in 82 arrests, seizure of five aircraft and 32 vessels, and the interdiction of 103,755 pounds of marijuana and 6,710 pounds of cocaine. The success of the Strike Force concept has led Customs to retain it as a permanent effort. In addition a BLUE LIGHTNING Operations Center will be developed to link and integrate on a real-time basis all detection data, and sort and track possible intruders. The center, which will function as a multi-agency command and control facility, will direct and coordinate Customs, other Federal and participating state/local marine units along the Florida coast as far north as Fort Pierce on the east coast and Marco on the west coast.

In FY 1985, the Customs border interdiction effort made significant contributions to the overall federal drug law enforcement. In addition to seizing some 50,000 pounds of cocaine, as well as establishing an effective deterrent along the south Florida coastline, in practicable terms border interdiction supplied visible enforcement pressure on the drug traffickers. It is estimated that during the past two years, more than $10 billion in profits have been denied to the drug smugglers. However, the drug smuggler, supported by high profits and vast resources, is still a significant threat to the lives of many young Americans.

4. Investigations

This program is responsible for investigating violations of laws and regulations enforced by Customs, including currency, fraud, neutrality, smuggling, illegal exports of critical technology, and cargo theft. These investigations support our priority enforcement efforts against narcotics smuggling, economic crime and national security violations.

Four major areas are currently emphasized: financial investigations, fraud investigations, export enforcement and international enforcement. Customs actively seeks the prosecution of sophisticated criminal enterprises associated with financing drug smuggling in violation of the Currency Reporting and Bank Secrecy Acts, and the prosecution of major importing corporations which violate Customs fraud statutes. In addition, Customs continues to emphasize the detection and prevention of illegal exports of critical technology to Soviet Bloc countries and the reduction of the growing traffic in illegal arms and munitions. The final area, international enforcement, emphasizes improved intelligence gathering methods. Enhanced international enforcement in the form of new and expanded Customs foreign offices and increased exchange of intelligence with foreign law enforcement counterparts will provide major dividends to Customs in the form of leads and intelligence to support domestic cases.

Customs' objectives will, with few changes, continue current enforcement priorities. Among our priorities are continued support to the Organized Crime Drug Enforcement Task Force (OCDE); continued support to priority efforts against conspiracies to violate financial and fraud statutes. To accomplish these objectives, Customs will increase its use of covert operations; better utilize informants; and sharply increase the use of computer assisted techniques to focus and target our investigations. Our overall objective is to improve the selectivity of our investigations so we may target major violators while, at the same time, minimizing any impact or inconvenience on the vast majority of the law abiding public as well as the business community.

The major issues facing the Customs Investigations Program are: how to disrupt large-scale criminal enterprises; to develop cases and subsequent successful prosecutions of violators of financial and fraud statutes; and to prevent the export of critical technology to hostile nations without interfering with legitimate business activities. Targeting is the principal technique used to implement a more selective and effective system that minimizes disruption of legitimate activities while still enforcing the law.

Targeting depends heavily on the development and collection of intelligence. To focus and target efforts to detect and apprehend violators, Customs will increase its use of covert operations; better utilize informants; and sharply increase the use of computer assisted techniques. Successful prosecution of violators will also be based on targeting, through appropriate data gathering and ADP support intelligence analysis; investigating high potential cases; and presenting sufficient appropriate evidence.

The challenge presented by the availability of resources, mobility and sophistication of the criminal organizations is being answered in part by Customs expanded capability to target significant violators, by correlating commercial, financial and economic data using ADP systems, within selected "high-risk" areas. In addition, operationally, we are using integrated functional teams in high-activity locations to improve our enforcement effectiveness. Overall, we are conducting more complex and high quality investigations; this is resulting in fewer cases, but better long term results.

Financial Law Enforcement Program:

The Financial Law Enforcement Program comprises multiagency financial task force operations and the Organized Crime Drug Enforcement Task Forces (OCDETF), located in 30 cities throughout the United States. Presently, all task forces are staffed by the Customs Service, Drug Enforcement Administration and Internal Revenue Service special agents and analysts. This program focuses on investigations of organizations and individuals responsible for money laundering schemes involving unreported

imported/exported currency/monetary instruments in violation of the Bank Secrecy Act. During FY 1985, the program produced indictments, arrests, convictions, and millions of dollars in seized currency. Many significant conspiracy investigations are in progress.

The Financial Analysis Division (FAD) in the Office of Intelligence is the national clearinghouse for analysis of information contained in the Financial Data Base (FDB), which includes the information required by the Bank Secrecy Act (BSA). It's mission is the production of analytical reports focusing on particular profiles where money laundering is known or suspected. During FY 1985, FAD produced reports identifying individuals and companies who may be potential money launderers. The total cash figure was over a billion dollars. Financial investigations also include task force operations, special undercover operations, and the dissemination of BSA information to other law enforcement agencies. The BSA information is used for investigations and prosecutions of violators of not only the BSA but also many other criminal statutes.

Fraud Program:

The shift in recent years of investigative resources to significant fraud investigations has produced excellent results in terms of financial gains to the government as well as the prosecution of significant criminal cases. Domestic industries have been protected from unfair and illegal international trade practices and the government has received substantial monetary returns from criminal fines and civil penalties.

In FY 1985, Operation Tripwire accounted for 54 arrests and 230 indictments. Additionally, recoveries for the year totalled approximately $46 million. Textile seizures totalled approximately $30.3 million for FY 1985 and copyright/trademark seizures for CY 85 had a domestic value of $37.5 million.

Current plans are for Customs to continue concentrating its investigative efforts on fraud violations involving steel, textile, wearing apparel, drawback, and trademark and copyright violations. Increased prosecutions and penalties resulting from these investigative areas will play a major role in insuring that lawful revenues are collected and the integrity of trade agreements are maintained.

Based on accomplishments in FY 1985, task force operations will continue on major investigations. Major task forces have been established to intercept illegal merchandise before it enters United States commerce and to investigate cases arising during intensified inspections. The task forces focus on high risk importations at major ports of entry to assure continued high quality arrests, major revenue recoveries and a highly visible deterrent to the import business community. In addition, the Fraud Investigations Center will be steadily upgraded to improve data acquisition, intelligence analysis targeting and trend analysis.

Export Enforcement:

Customs has implemented a comprehensive program to combat the growing national security threat of illegal exports of critical technology to the Soviet Union and other hostile governments. The program also is directed against the threat of the illegal export of arms and munitions to other countries or terrorist groups. Investigations conducted to date have revealed a broad pattern of criminal activity and intelligence reports indicate that the threat is growing. In carrying out the export enforcement effort, Customs works closely with a variety of government enforcement and intelligence agencies.

Interdiction, investigations, and international cooperation are the three basic elements of the export enforcement program. These elements provide a highly visible deterrent and have a valuable compliance impact on the domestic high technology manufacturing and exporting industry as well as a proactive investigative approach to detect and disrupt illegal criminal conspiracies before they can damage national

security. Investigative tools utilized include undercover operations, covert special "sting" activities, development of informants, active solicitation of information from legitimate exporters, and enhancing international enforcement through training and intensive information exchange.

During FY 1985, Customs was responsible for 700 seizures of merchandise valued at $75 million from EXODUS violations. In addition, a number of major investigations were undertaken that received major media coverage: the recent Bruchhausen arrest; VAX/Mueller case; MAPEX International; TRIBOWEN; and DATAGON. We have seen increasing evidence of major conspiracies formed to divert sensitive U.S. technologies and armaments to the Soviet Union via diversion through a neutral third country. Customs has launched a number of operations that are aimed at drawing attention to the top most wanted violators, disrupting the illegal diversion of U.S. technology to the Soviets through Canada, and targeting against diversions of surplus arms and sensitive equipment released by DOD that eventually would end up in hostile or Soviet bloc countries. Current plans are to continue operations such as these and carryout an intensive proactive investigative program backed up by undercover operations and an effective interdiction effort at high-threat ports.

In FY 1987, a variety of enforcement initiatives will continue to be implemented: additional covert operations; improved liaison with the intelligence community; increased foreign cooperation; and support and assistance to foreign governments in their own conduct of covert operations directed against these violations.

The areas of export enforcement and financial investigations both require effective support from Customs foreign offices. Our Attaches and Customs Representatives overseas play a vital role in gathering intelligence on violations of Customs laws and regulations as well as laws enforced by Customs on behalf of other agencies. It is vital to Customs enforcement that we maintain our commitments in the foreign offices so that preinterdiction information on financial, fraud, and critical technology activities is available and appropriate follow up on all investigations of international criminal activity affecting the welfare and revenue of the United States can be implemented.

Consolidation of Enforcement Activities:

Since 1973, the Customs Service has been organized into two distinct enforcement components: first, the Customs Patrol or Tactical Enforcement Program, whose role is the interdiction of drugs and other contraband and the second is the Investigations Program, whose role is the investigation of violators of Customs and related laws. Both programs have separate organizational structures and managements.

Since 1973, the interdiction efforts of the Patrol have become more sophisticated in response to smuggler tactics. As part of this growing sophistication, Tactical Enforcement was forced to adopt investigative methods. These efforts of the tactical enforcement units were soon duplicative of those of our regular investigative program and even those of the Drug Enforcement Administration. In order to eliminate the overlapping efforts and to establish a fully professional investigative staff, both programs were consolidated in FY 1985 under unified management of all Customs enforcement efforts.

Investigative Cases Opened (Currency, Fraud, Illegal Export and Neutrality cases only)			
	9/30/84	9/30/85	% Change
Class* I.....	3,349	2,818	-16
Class*II.....	443	317	-28
Class*III.....	371	235	-37
Total	4,163	3,370	-19

* Indicates priority and importance of cases; Class I is highest priority.

Note: The reduction in total investigative cases opened reflects a continued concentration of Special Agent staffyears on a smaller number of investigations of a more complex nature, offering greater enforcement payoffs.

58-905 O—86—29

General and special funds:

Salaries and Expenses

For necessary expenses of the United States Customs Service, including purchase of up to five hundred motor vehicles for replacement only, including four hundred and ninety for police-type use; hire of passenger motor vehicles; not to exceed $10,000 for official reception and representation expenses; and awards of compensation to informers, as authorized by any Act enforced by the United States Customs Service; $693,000,000, of which not to exceed $150,000 shall be available for payment for rental space in connection with preclearance operations and not to exceed $1,000,000, to remain available until expended, for research: Provided, That uniforms may be purchased without regard to the general purchase price limitation for the current fiscal year: Provided further, That none of the funds made available by this Act shall be available for administrative expenses to pay any employee overtime pay in an amount in excess of $25,000: Provided further, That the Commissioner or his designee may waive this limitation in individual cases in order to prevent excessive costs or to meet emergency requirements of the Service.

(19 U.S.C. 68, 128, 161, 257, 482, 1303-05, 1431. et seq. 1455, 1496, 1499, 1581, 1585, 1592, 1592a, 1619, 1644, 1701, 2076; 22 U.S.C. 401; 31 U.S.C. 5253; 46 U.S.C. 3, 7, 60, 158, 161, 251, 277, 278, 292, 319, 325, 327, 808, 882, 883, 883a; 49 U.S.C. 1509.)

SUMMARY OF EMPLOYMENT
(Number of Average Positions)

Principal Categories	Actual	Estimated		Increases/Decreases for 1987		
	1985	1986	1987	Total	Program	Other
Customs Programs:						
Inspectors	4,262	4,299	3,978	(321)	0	(321)
I&C Program Support(includes Aids)	863	890	874	(16)	0	(16)
Import Specialists	974	966	817	(149)	0	(149)
Laboratory Employees	126	121	117	(4)	0	(4)
T&T Program Support(includes Entry Clerks)	1,470	1,460	1,387	(73)	0	(73)
Investigations Agents	925	924	924	0	0	0
Investigations Program Support	263	278	269	(9)	0	(9)
Aviation Interdiction Program	209	319	319	0	0	0
Investigators/Patrol Officers	905	993	993	0	0	0
IE Program Support	139	135	131	(4)	0	(4)
Intelligence Employees	162	189	189	0	0	0
Internal Affairs Employees	223	221	214	(7)	0	(7)
Enforcement Support	223	257	240	(17)	0	(17)
Operational Support	841	830	804	(26)	0	(26)
Executive Direction and Control	851	840	814	(26)	0	(26)
Chief and Regional Counsel employees	93	92	89	(3)	0	(3)
Subtotal	12,512	12,814	12,159	(655)	0	(655)
Part-time and Temporary Average Positions	530	450	335	(115)	0	(115)
Total Average Positions	13,042	13,264	12,494	(770)	0	(770)

Salaries and Expenses, United States Customs Service

SELECTED WORKLOAD DATA
(in thousands)

Activities and Principal Workload Factors	1985 Actual	1986 Program in 1986 Budget	1986 Program in 1987 Budget	1987 Estimate
1. Processing of arriving persons and cargo:				
a. Formal entries accepted	6,823	7,079	7,079	7,433
b. Carriers of persons and merchandise arriving from foreign countries	89,723	93,490	91,517	93,347
c. Persons arriving from foreign countries	289,521	299,427	288,978	294,716
d. Backlog of unliquidated entries	1,130	1,240	1,080	1,057
e. Mail packages received	51,984	45,000	53,700	55,900
f. Mail packages examined	3,201	3,150	3,375	3,488
g. Mail entries written	730	738	688	641
h. Merchandise examined (other than mail)	11,473	12,000	10,899	10,354
2. Investigations of violations of Customs and related laws and regulations:				
a. Investigations completed	4.5	5.3	4.4	4.6
b. Investigations backlog September 30	7.6	4.9	10.9	11.1

Note: Puerto Rico and Virgin Islands excluded.

Salaries and Expenses, United States Customs Service

EXPLANATION OF FY 1987 BUDGET INCREASES, DECREASES, AND PROGRAM CHANGES

PROGRAM CHANGES

A. Automated Commercial System..... $ 3,000,000

Consistent with the long range plans for the Automated Commercial System (ACS) which were established when the System was initiated, additional refinements to the hardware and software components of ACS will be required in FY 1987. Specifically, hardware expansion and system development are necessary for the following modules: Antidumping/Countervailing Duty, Entry Summary Selectivity, Air Manifest, Customs Information Exchange and Billing by Account.

The Customs Service collects the revenue from imports and enforces Customs and other agency laws. The Service has a mandate to expedite the processing of cargo entry, while still enforcing all applicable regulations. In order to effectively use our resources to carry out our mission ACS will emphasize selectivity in determining which importations should be intensively examined by the inspector as well as those entries which have the most potential for classification changes by import specialists resulting in increased revenue collections.

The Automated Broker Interface (ABI), as well as an integrated database, will eliminate the need for Customs to key redundant data while paving the way for paperless entry. As current procedures require extensive back-up documentation for each entry in order to determine proper classification, the elimination of this requirement for all but the entries selected for intensive review will reduce the amount of paper work handling both for Customs and the trade community.

More timely and accurate management information in addition to increased employee productivity will be the result of an integrated database used as the single repository in Customs of commercial information.

ACS will provide the capability for Customs to move to an account based system with the importing community rather than dealing with one transaction (entry) at a time for the collection of duties and taxes as is the current procedures.

B. TECS II Design and Development..... $ 8,000,000

The law enforcement community has many information requirements that can no longer be met by the existing hardware configuration, system software and database design in the current Treasury Enforcement Communications System (TECS) system. This fifteen year old system must be replaced with state-of-the-art technology and database design which will have the added advantage of allowing an interface with the Customs Commercial System.

TECS has long been recognized as the flagship of enforcement communication systems. Since its inception as a modest southern border lookout system for Customs in 1969, then known as CADPIN (Customs Automated Data Processing Intelligence Network) and comprised of 18 terminals at the Mexican border crossing of San Ysidro, it has grown to become a multifaceted communications and enforcement support ADP system comprised of over 1,700 terminals and approximately 40 operational subsystems providing law enforcement support service to 10 agencies both within and without Treasury. This system consists of various types of enforcement related data loosely connected in a centralized database.

The wide acceptance of this system coupled with continued mounting pressure to greatly expand both its capabilities and terminal network associated with it has reached critical dimensions. The pressure both from within and without Customs for system enhancements, the rapidly evolving state of information handling and computer technology and the need to provide more sophisticated ADP tools in support of the modern law enforcement officer have driven the current system well beyond its ability to respond creatively and efficiently.

TECS II will utilize state-of-the-art hardware, software and database technology to achieve the following results: 1) a database management system that will provide greatly enhanced data manipulation capability, expanded access to all users and the means to purge

outdated and unproductive information; 2) a hardware/software environment that will provide total integration with the Field Delivery System network, access to other commercial and enforcement systems, greater access to more databases and data communication in a classified mode; and 3) an overall system configuration that will possess flexibility for database expansion, quick response times on routine queries, and the ability to more efficiently collect enforcement data.

OTHER CHANGES

A. Increases Necessary to Maintain Current Levels.....$24,792,000

1. Net Cost of Within Grade Salary Increases.....$3,033,000

Based on the experience of turnover savings and promotions, it is estimated that the net changes (FY 1986 carryover plus FY 1987 cost) in pay for within-grade increases will require funding of $3,033,000, which includes related benefits.

2. Grade-to-Grade Promotions.....$682,000

Based on the new positions authorized in prior years which qualify for annual trainee-to-journeyman promotions. The estimate is a combination of the cost of these increases in FY 1987 and the carryover portion of FY 1986 promotions.

3. Payment to Employee Compensation Fund.....$1,019,000

Based on cost of compensation and medical benefits paid during FY 1985 by the Office of Workers Compensation Program, additional funds of $1,019,000 are required for FY 1987.

4. Increased Cost of Employee Benefits.....$1,785,000

The 1985 open season for life and health insurance will result in increased costs of $1,785,000 as an increasing number of employees opted to participate or change plans.

5. Payment to Social Security Trust Fund.....$312,000

Employees hired after January 1, 1984, contribute to Social Security. In order to match this amount, and make rate adjustments for current personnel, we are requesting these funds.

6. Increase in Federal Building Fund.....$9,048,000

This request reflects price increases for space currently occupied by Customs and increases for planned expansion at specific border stations. Examples of price increases are the JFK mail facility ($500,000) and the New York World Trade Center ($8.5 million). After netting increases and decreases, an additional $9,048,000 is required for rate adjustments.

7. Payment to GSA for Special Services.....$930,000

This reflects payments to GSA for the increased cost of services.

8. Increased Cost of Postage.....$1,000,000

This substantial increase incorporates the 1984 rate hike for postage. After netting the rate increase and decreases resulting from centralizing administrative services, $1,000,000 will be required in FY 1987.

9. Cost of FTS and Other Communications.....$3,329,000

The increase for FTS and other communications is based on estimated cost increases for lines and equipment.

10. Reimbursement of Services of Other Government Agencies.....$866,000

This request is based on past historical estimates. In addition, the Coast Guard now contracts out a service that was previously performed in house. In order to receive the same services, Customs must now reimburse the Coast Guard for utilizing their contract.

11. Personnel and Payroll Services.....$200,000

Increased cost to maintain 16,677 personnel and payroll accounts (same number of accounts as FY 1985).

12. Equipment Procurement Cost.....$600,000

This request reflects anticipated cost increases for equipment procurement.

13. Annualization of Operation and Maintenance Costs (FY 1985 Supplemental)..$1,988,000

This increase reflects the annualization of operation and maintenance costs associated with the 40 interceptors (boats) provided in the FY 1985 Supplemental.

B. Reductions, Nonrecurring Costs, and Savings

1. Reductions.....$-9,665,000

The Customs Service will implement a selective hiring policy that will allow only those vacancies determined to be critical or essential to be filled.

2. Nonrecurring Costs.....$-3,661,000

These reductions, in the FY 1987 request, reflect nonrecurring costs for Fiber Optics ($300,000), Integrated Data Telecommunications ($799,000), Wind Tunnel ($500,000), and one-time costs associated with centralizing administrative services ($2,062,000).

3. Management Savings.....$-11,466,000

In FY 1987, Customs will realize savings of 150 FTE and $3,766,000, as a result of automation efficiencies, derived from the Automated Commercial System. In addition, savings of 235 FTE and $7,700,000 will result from streamlining district and port operations.

DEPARTMENT OF THE TREASURY
SALARIES AND EXPENSES, UNITED STATES CUSTOMS SERVICE
STANDARD CLASSIFICATION SCHEDULE
(DIRECT OBLIGATIONS ONLY)

	Appropriation 1985	Authorization 1986	Request 1987	1987 Increase/ Decrease over 1986
Total number of permanent positions	13,620			0
Average paid employment	13,042			0
Object Classification: (1000)				
Personnel Compensation:				
Permanent positions	361,893	372,385	361,795	(10,590)
Positions other than permanent	9,120	8,902	7,086	(1,816)
Other personnel compensation	42,485	43,832	42,145	(1,687)
Special personnel services payments	1,063	2,662	2,662	0
Total personnel compensation	414,561	427,781	413,688	(14,093)
Personnel benefits	60,415	64,773	64,717	(56)
Benefits to former personnel	0	287	287	0
Travel and transportation of persons	15,872	18,447	17,644	(803)
Transportation of things	5,108	3,088	2,645	(443)
Rent, communication and utilities				
Standard level user charges	49,378	49,000	56,446	7,446
Other rent, comm. and utilities	37,886	50,352	62,217	11,865
Printing and reproduction	2,594	2,694	2,694	0
Other Services	36,505	39,935	44,505	4,570
Supplies and materials	9,137	11,864	12,793	929
Equipment	26,910	13,654	15,239	1,585
Lands and structures	1	0	0	0
Insurance claims and indemnities	192	125	125	0
Refunds	268	0	0	0
Total obligations	658,827	682,000	693,000	11,000
Unobligated balance	10,907	0	0	
Total Appropriation, Authorized Level, and Budget Estimate	669,734	682,000	693,000	11,000

1. Unobligated balance includes $9,656,000 in no-year and multi-year resources.

Salaries and Expenses, United States Customs Service

CONSULTING AND RELATED SERVICES

Each year, the U.S. Customs Service enters into several small consulting service arrangements to obtain professional or technical advice which is not already available within the agency. These services allow Customs to obtain objective outside views and expertise. For example, in FY 1984 Customs hired consultants to review and assess our mission, policies, results, and strategies on several programs and organizations. These analyses assisted Customs management in determining operational requirements for resources, future budget levels, and appropriate organizational structures.

If such studies and analyses are not conducted, Customs would not benefit from the expertise of persons that contribute to the success of important projects. Technical consultants have periodically been used to solve problems in the design and development of the Automated Commercial System, without which implementation of the system would be impossible.

Before entering into consulting service arrangements, Customs reviews in-house capabilities and those within other government agencies. Customs also considers using temporary or intermittent employees, but in highly technical areas the restrictive federal compensation system makes it impossible to attract highly specialized technicians.

Salaries and Expenses, United States Customs Service

CONSULTING AND RELATED SERVICES
($000)

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Consulting Services	15	16	17
Management and Professional Services	10	11	12
Special Studies and Analyses	200	206	212
Management and Support Services for Research and Development	58	60	62
Total Consulting and Related Services	283	293	303

Average Grade and Salaries
U.S. Customs Service

	FY 1985	FY 1986	FY 1987
Average ES Salary	$63,257	$63,257	$63,257
Average GS/GM Grade	9.13	9.00	8.90
Average GS/GM Salary	$27,613	$27,220	$26,917
Average grade, grades established by Administrator Agency for International Development (75 Stat. 450)	9.91	9.91	9.91
Average Salary (75 Stat. 450)	$41,968	$41,968	$41,968
Average Salary ungraded positions	$20,961	$21,590	$22,238

DETAIL OF PERMANENT POSITIONS
UNITED STATES CUSTOMS SERVICE
Salaries and Expenses

	1985 Actual	1986 Estimate	1987 Estimate
Direct Program			
ES-6	1	1	1
ES-5	1	1	1
ES-4	18	18	18
ES-3	7	7	7
ES-2	4	4	4
ES-1	13	13	13
Subtotal	44	44	44
GS/GM-15	165	165	165
GS/GM-14	419	440	440
GS/GM-13	1,144	1,139	1,174
GS-12	1,751	1,746	1,741
GS-11	2,145	2,045	1,895
GS-10	11	11	11
GS-9	3,676	3,579	3,282
GS-8	104	103	102
GS-7	918	912	855
GS-6	539	534	489
GS-5	1,706	1,692	1,556
GS-4	572	571	547
GS-3	280	280	255
GS-2	30	30	29
GS-1	6	6	6
Subtotal	13,466	13,253	12,548
Ungraded	110	100	85
Total (Direct)	13,620	13,397	12,677
Reimbursable Program			
GS/GM-15	1	1	1
GS/GM-14	9	9	9
GS/GM-13	12	12	12
GS-12	17	17	17
GS-11	52	52	52
GS-9	215	215	215
GS-8	1	1	1
GS-7	184	184	184
GS-6	174	174	174
GS-5	4	4	4
GS-4	4	4	4
GS-3	3	3	3
Subtotal	676	676	676
Ungraded	22	22	22

Detail of Permanent Positions
UNITED STATES CUSTOMS SERVICE
Salaries and Expenses

	1985 Actual	1986 Estimate	1987 Estimate
Total (Reimbursable).....	650	630	658
Grades Established by the Administrator Agency for International Development (75) stat. 450)			
FC-12 52,262 - 67,940	2	2	2
FC-11 44,430 - 57,759	7	7	7
FC-10 37,599 - 48,876	2	2	2
FC-9 31,619 - 41,105	7	7	7
FC-8 26,381 - 34,292	4	4	4
	22	22	22
Subtotal.....			
Total permanent positions....	14,301	14,078	13,758
Unfilled positions end of year..	(1,616)	(521)	(694)
Total permanent employment end of year.....	12,685	13,557	13,064

Detail of Permanent Positions
UNITED STATES CUSTOMS SERVICE
Miscellaneous Permanent Accounts

	1985 Actual	1986 Estimate	1987 Estimate
GS/GM 15	1	1	1
GS/GM 14	3	3	3
GS/GM 13	11	11	11
GS-12	22	22	22
GS-11	45	45	45
GS-10	1	1	1
GS-9	91	91	91
GS-8	2	2	2
GS-7	10	10	10
GS-6	9	9	9
GS-5	36	36	36
GS-4	13	13	13
GS-3	3	3	3
GS-2	2	2	2
Subtotal	249	249	249
Ungraded	16	16	16
Total permanent positions	265	265	265
Unfilled positions end of year	-16	-16	-16
Total permanent employment end of year	249	249	249

OPERATIONS AND MAINTENANCE, UNITED STATES CUSTOMS SERVICE

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987
(Dollars in Thousands)

	Air Operations and Maintenance			Total		
	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount
Other Changes:						
A. Increases necessary to maintain current levels:						
1. Increased costs	0	0	2,200	0	0	2,200
Total Increases or Decreases in FY 1987 Compared with Proposed FY 1986 Authorized Level	0	0	2,200	0	0	2,200

Operations and Maintenance, United States Customs Service

Impact of
FY 1986 Gramm-Rudman-Hollings Budget Reduction

- Description of impact on bureau program:

  Command, control, communication and intelligence centers (C3I's): These centers will coordinate, integrate and centralize management and control of the various Customs enforcement assets to make optimal use of them. This will result in increased effectiveness of the Intelligence, Investigations, Aviation Interdiction and Marine Programs. The reduction will slow down the incremental buildup of these centers. Thus, the centers will not become fully operational in the originally planned time frame.

  Spares for the fleets: These are used for unscheduled replacement of major components. By having adequate spares on hand (based on analysis of determined need), Customs planned to decrease downtime for repairs, thereby allowing fullest utilization of aircraft. However, even with this reduction, aircraft will be utilized sufficiently for interdiction of drugs. Increased interdiction efforts have the potential to increase the accomplishments of the Investigations, Intelligence, Aviation Interdiction and Marine programs.

- Effect on workload:

  Workload, per se, will not be affected by the reductions.

- Effect on services:

  Increased effectiveness and efficiency will be hampered because the C3I Centers will not be functioning in the timeframe planned and because Customs will not have major spares on hand.

- Effect on ability to fulfill bureau mission:

  Because of the reductions, Customs will not be able to increase the Aviation Interdiction Program as rapidly as planned.

Operations and Maintenance, United States Customs Service

Air Operations and Maintenance

Air interdiction, aimed at reducing the availability of illegal drugs is a vital component of the federal war on drugs. Increasingly, drug smuggling organizations have access to huge sums of money to purchase well equipped aircraft to evade detection or to outrun interdiction efforts of Customs air units. Equipment and facilities obtained through this appropriation support the Aviation Interdiction Program's overall mission and objectives: the detection and apprehension of those involved in the smuggling of contraband by private aircraft; and the provision of assistance to other enforcement efforts of Customs and other agencies in the law enforcement community.

Aircraft currently operated by Customs include high speed jet interceptors equipped with radar and infrared detection sensors; long range trackers; high performance helicopters; single and multi-engine support aircraft; and P-3A airborne detection platforms. Aircraft are obtained through purchase, lease, or military loan and modified to meet Customs requirements. In addition to airborne radar, radar equipped aerostats provide additional detection and tracking capabilities. These assets are deployed chiefly along the Southern border of the United States. Customs believes that continued implementation of strong centralized management of these assets and the incremental buildup of C3I centers will result in optimal utilization and flexibility in the deployment of assets, thereby increasing the effectiveness of Customs response to the shifting, but ever increasing smuggling threat.

Strategies and Plans

Customs air strategy in FY 1986 and FY 1987 will be directed to achieving the following objectives: (a) nationwide coordination of assets in order to maximize limited resources; (b) continued development and exploitation of an effective tactical intelligence system; (c) developing a comprehensive database for threat analyses needed to improve program strategy, plans and tactics; and, (d) developing a command and control capability which integrates a system for pinpointing suspect aircraft for effective and rapid interception by Customs air units.

Operationally, the air program will be emphasizing interdiction, which involves exploiting strategic and tactical intelligence for optimum target selection, operations of detection systems, and the actual intercept, tracking and apprehension of suspect aircraft. In addition, support against marine and land targets, including airborne searches, surveillance and vessel tracking will be conducted. The basic tool for achieving these operational strategies is the air module, an operational unit comprising sufficient resources to effectively control a segment of the border for a specified time. Major components of the modules are: (1) sufficient technically capable aircraft and helicopters for interception, tracking and apprehension, and (2) dedicated airborne support aircraft. Ultimately the overall effectiveness of single modules or the groups comprising the full air program is the C3I system and the detection network of airborne and ground based radars.

In FY 1987, Customs will be operating four P-3A's, eight new interceptor/trackers (CHETS), six Citation II aircraft and eight Blackhawk helicopters. We anticipate that modified C-12 aircraft dedicated to marine support will be operational.

OPERATION AND MAINTENANCE, AIR INTERDICTION PROGRAM

For expenses, not otherwise provided for, necessary for the hire, lease, acquisition (transfer or acquisition from any other agency), operation and maintenance of aircraft, and other related equipment of the Air Program: $54,700,000.

Operations and Maintenance, United States Customs Service

EXPLANATION OF FY 1987 BUDGET INCREASES, DECREASES AND PROGRAM CHANGES

OTHER CHANGES

Increases necessary to maintain current levels.....$2,200,000

Reflects increased costs due to inflationary increases for such items as fuel, equipment and supplies.

DEPARTMENT OF THE TREASURY
OPERATIONS AND MAINTENANCE, UNITED STATES CUSTOMS SERVICE
STANDARD CLASSIFICATION SCHEDULE
(DIRECT OBLIGATIONS ONLY)

	Appropriation 1985	Authorization 1986	Request 1987	1987 Increase/ Decrease over 1986
Total number of permanent positions				
Average paid employment				
Object Classification: ($000)				
Personnel Compensation:				
Permanent positions	0	0	0	0
Positions other than permanent	0	0	0	0
Other personnel compensation	0	0	0	0
Special personnel services payments	0	0	0	0
Total personnel compensation	0	0	0	0
Personnel benefits	0	0	0	0
Benefits to former personnel	0	0	0	0
Travel and transportation of persons	996	985	985	0
Transportation of things	296	319	319	0
Rent, communication and utilities	611	1,050	1,050	0
Standard level user charges	0	0	0	0
Other rent, comm. and utilities	611	1,050	1,050	0
Printing and reproduction	0	0	0	0
Other Services	24,024	29,068	30,068	1,000
Supplies and materials	13,955	17,930	18,630	700
Equipment	3,178	3,148	3,648	500
Lands and structures	0	0	0	0
Insurance claims and indemnities	0	0	0	0
Refunds	0	0	0	0
Total obligations	43,060	52,500	54,700	2,200
Unobligated balance	12,365	0	0	0
Total Appropriation, Authorized Level, and Budget Estimate	55,425	52,500	54,700	2,200

1. Unobligated balance includes $11,000,000 in multi-year resources.

CUSTOMS FORFEITURE FUND, UNITED STATES CUSTOMS SERVICE

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987
(Dollars in Thousands)

	Customs Forfeiture Fund			Total		
	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount
Other Changes:						
A. Increases necessary to maintain current level:						
1.Maintaining FY 1986 program levels reduced by P.L. 99-177	0	0	344	0	0	344
Total Increases or Decreases in FY 1987 Compared with Proposed FY 1986 Authorized Level	0	0	344	0	0	344

Customs Foreiture Fund, United States Customs Service

Customs Forfeiture Fund

Prior to FY 1985, the costs of handling each seizure had been deducted from the proceeds if any, of that seizure. However, in instances where proceeds were not sufficient to cover expenses, Customs had to cover the expenses out of its regular operating budget. The latter situation occurred frequently -- by the time the seized property was forfeited, expenses for storage and other miscellaneous charges had exceeded the proceeds of the sale. Moreover, the net proceeds from one sale could not be used to offset the losses incurred from another sale.

To remedy this situation, Congress passed legislation that authorized Customs to establish a Customs Forfeiture Fund. Seized and forfeited currency and any proceeds beyond the expenses of seizure and forfeiture of merchandise are deposited into this account. Customs will use these funds for expenses related to seizures; awards to informants; payment of liens related to seizures; equipping forfeited vessels, vehicles and aircraft; payment of claims of "parties of interest to property disposed"; purchase of evidence; and destruction of drugs.

In FY 1985, Customs requested a supplemental appropriation so that it could spend the money on this new forfeiture account. The FY 1986 increase is a result of improvements in the management of seized goods and in forfeiture procedures. The FY 1987 increase reflects the FY 1986 program level prior to reductions pursuant to P.L. 99-177.

Customs Forfeiture Fund

For necessary expenses of the Customs Forfeiture Fund, not to exceed $8,000,000, as authorized by Public Law 98-473 and Public Law 98-573; to be derived from deposits in the Fund.

Customs Forfeiture Fund, United States Customs Service

EXPLANATION OF FY 1987 BUDGET INCREASES, DECREASES AND PROGRAM CHANGES

OTHER CHANGES

A. Increases Necessary to Maintain Current Level.....$344,000

This request restores the FY 1986 program level that was reduced by P.L. 99-177.

DEPARTMENT OF THE TREASURY
CUSTOMS FORFEITURE FUND, UNITED STATES CUSTOMS SERVICE
STANDARD CLASSIFICATION SCHEDULE
(DIRECT OBLIGATIONS ONLY)

	Appropriation 1985	Authorization 1986	Request 1987	1987 Increase/ Decrease over 1986
Total number of permanent positions	0	0	0	0
Average paid employment	0	0	0	0
Object Classification: ($000)				
Personnel Compensation:				
Permanent positions	8			0
Positions other than permanent				0
Other personnel compensation		800	800	0
Special personnel services payments	792			0
Total personnel compensation	800	800	800	0
Personnel benefits				0
Benefits to former personnel	0			0
Travel and transportation of persons	4	88	88	0
Transportation of things		80	80	0
Rent, communication and utilities				
Standard level user charges		56	56	0
Other rent, comm. and utilities				0
Printing and reproduction				0
Other Services	1,441	4,176	4,520	344
Supplies and materials	215	56	56	0
Equipment	2,419	2,400	2,400	0
Lands and structures				0
Insurance claims and indemnities				0
Refunds				0
Total obligations	4,879	7,656	8,000	344
Unobligated balance	1,121			
Total Appropriation, Authorized Level, and Budget Estimate	6,000	7,656	8,000	344

HOURS FEES AT CERTAIN SMALL AIRPORTS, UNITED STATES CUSTOMS SERVICE

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1986
(Dollars in Thousands)

	Perm. Pos.	Ave. Pos.	Amount
1986 Appropriation Enacted by Congress	0	1	73
Proposed Authorized Level for FY 1986	0	1	73
Estimate, FY 1987	0	6	365

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1986

	Appropriation FY 1985		Authorized Level FY 1986		Budget Estimate FY 1987		Increase or Decrease (-) for FY 1987					
							Total Changes		Program Changes		Other Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
1. User Fees At Certain Small Airports	0	0	1	73	6	365	5	299	5	299	0	0
Unutilized Budget Authority	1	42	0	0	0	0	0	0	0	0	0	0
Total appropriation, authorized level & budget estimate	1	42	1	73	6	365	5	299	5	299	0	0
Permanent positions established	0		0		1		0		0		0	

A. The FY 1985 supplemental for this appropriation was approved late in the fiscal year and could not be utilized.

USER FEES AT CERTAIN SMALL AIRPORTS, UNITED STATES CUSTOMS SERVICE

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987
(Dollars in Thousands)

	User Fees at Certain Small Airports			Total		
	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount
Program Changes:						
A. Increased number of small airports being serviced	0	5	290	0	5	290
Total Increases or Decreases in FY 1987 Compared with Proposed FY 1986 Authorized Level	0	5	290	0	5	290

WEDNESDAY, MARCH 5, 1986.

UNITED STATES CUSTOMS SERVICE

RESCISSIONS

WITNESS

WILLIAM VON RAAB, COMMISSIONER OF CUSTOMS

CUSTOMS RESCISSIONS

Mr. ROYBAL. We would like to go over that rescission with you if it is possible.

Mr. VON RAAB. Right now?

Mr. ROYBAL. Can it be done?

Mr. VON RAAB. Oh, absolutely, sure.

Mr. ROYBAL. All right.

You have two rescissions. One is on the S&E and the other is on the Air Interdiction Program.

Mr. VON RAAB. Is this for '86 or is this for——

Mr. ROYBAL. This would be for '86.

Mr. VON RAAB. '86.

Mr. ROYBAL. Correct.

Mr. VON RAAB. I am sorry. Right. Yes.

Mr. ROYBAL. The amount for '86 is $19,275,000.

Mr. VON RAAB. That is for the Air Program budget.

Mr. ROYBAL. Yes, that is for the air budget. That is in addition to a $3 million Gramm-Rudman cut.

Mr. VON RAAB. That is right.

Mr. ROYBAL. Salaries and expenses is $30.8 million for Gramm-Rudman and $4.2 million as a rescissions request.

SALARIES AND EXPENSES RESCISSION

Mr. VON RAAB. That is right.

Mr. ROYBAL. And that is correct?

Mr. VON RAAB. Yes.

Mr. ROYBAL. Now, it shows a reduction of $4.2 million and 46 work-years in 1986.

Now, what impact will this have on your investigatory funds in 1986?

Mr. VON RAAB. I believe that 46 is actually a number that relates to certain overtime that would be reduced. In this instance, I believe that OMB's guidance apparently produced a misleading reduction in our FY 1986 personnel summary.

Mr. ROYBAL. OMB never makes mistakes.

Mr. VON RAAB. You have more faith in OMB than I have.

Mr. ROYBAL. Well, I agree with you. But I am glad you admit that they do make mistakes.

All right. What impact will the reduction have on the acquisition of marine equipment?

Mr. VON RAAB. There is $1.3 million that would otherwise have been used to buy one marine module. This is basically a radar boat and two chase boats. One marine module will not be purchased this year, including its cost of operation.

Mr. ROYBAL Now, was this rescission proposed by Customs?

Mr. VON RAAB. No. This decision came down from OMB.

Mr. ROYBAL. Directly from OMB?

Mr. VON RAAB. Yes.

Mr. ROYBAL. All right. That gives the Committee something to think about.

AIR PROGRAM RESCISSION

Are there any questions on this one section? If not, we will go on to the other, that is with regard to the Customs Air Interdiction Program.

Now, again, what impact will this proposed rescission have on your operations?

Mr. VON RAAB. The effect of the rescission on the airport ramp is one, the construction of the Southwest aerostat at Fort Huachuca will not go forward. That is $9 million.

Mr. ROYBAL. But it is going to cripple your operation?

Mr. VON RAAB. No, I have never had much faith in this particular aerostat.

Mr. ROYBAL. Yet, you told the Committee what a great program you had in air interdiction.

Mr. VON RAAB. I have never supported the aerostat in the Southwest. I am not saying we would not increase detections, and that it is not the way to go, but I think that $9 million is a very expensive test, and it will actually cost more.

Mr. ROYBAL. But you are returning $19 million?

Mr. VON RAAB. I am sorry. I thought we were just talking about the aerostat.

Mr. ROYBAL. No.

Mr. VON RAAB. Approximately another $6 million of this will impact on some of the equipment that would be put on the P3s, therefore they would have less equipment on them.

Mr. ROYBAL. Will it in any way weaken your interdiction effort?

Mr. VON RAAB. Well, by definition, we would not have the COMINT and ELINT which basically means that communications intelligence and electronic intelligence equipment on these planes would provide us with increased capabilities.

Mr. ROYBAL. Then you would weaken your operation then?

Mr. VON RAAB. Yes.

Mr. ROYBAL. I cannot see how it could not.

Mr. VON RAAB. Well, unless this equipment did not work.

Mr. ROYBAL. Well, but you are not going to buy equipment that does not work.

Mr. VON RAAB. Customs does not buy equipment that would not work. But it would not be the first time the government bought equipment that did not work.

Mr. ROYBAL. OMB again? [Laughter.]

Any questions on this rescission?

Mr. COLEMAN. We really do not know the rationale other than just trying to make budget is that correct?

Mr. VON RAAB. You see, the rationale is laid out in the OMB document. Have you got that or does Congressman Lowery still have it?

Mr. COLEMAN. Well, I guess they talked about the specific rationale.

Mr. VON RAAB. There is a document that OMB produced which is called "Major Policy Initiatives," a public document. On page 18, they say that only one reduction is proposed in the Administration's drug area. That is a rescission of $19 million for the Customs Service Air Program. This reduction eliminates marginal Congressional add-ons and avoids additional expenditures for a program that has not proven to be cost-effective. This proposed reduction in the Customs Air Program reflects a reorientation of scarce resources from interdiction programs into investigations and intelligence. So that is a very explicit reason.

Mr. COLEMAN. Okay. Thank you, Mr. Chairman.

Mr. ROYBAL. Mr. von Raab, would you be very unhappy if we did not agree to this rescission?

Mr. VON RAAB. Is this hearing over, Mr. Chairman? [Laughter.]

Mr. ROYBAL. I just wanted to know whether you would be unhappy or not. I want to keep you happy.

Mr. von Raab, I would like to thank you and your colleagues for your testimony today.

Mr. VON RAAB. Thank you very much.

Mr. ROYBAL. It has been most interesting.

Thank you very much.

URGENT SUPPLEMENTAL APPROPRIATIONS FOR FISCAL YEAR 1986

SUBCOMMITTEE ON THE TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS

EDWARD R. ROYBAL, California, *Chairman*

JOSEPH P. ADDABBO, New York
DANIEL K. AKAKA, Hawaii
STENY H. HOYER, Maryland
RONALD D. COLEMAN, Texas
SIDNEY R. YATES, Illinois
JOE SKEEN, New Mexico
BILL LOWERY, California
FRANK R. WOLF, Virginia

AUBERY A. GUNNELS and C. WILLIAM SMITH, *Staff Assistants*

WEDNESDAY, FEBRUARY 19, 1986.

INTERNAL REVENUE SERVICE

WITNESSES

JOHN F. W. ROGERS, ASSISTANT SECRETARY OF THE TREASURY (MANAGEMENT)
ROSCOE L. EGGER, JR., COMMISSIONER OF THE INTERNAL REVENUE SERVICE
JAMES I. OWENS, DEPUTY COMMISSIONER
FRED T. GOLDBERG, JR., CHIEF COUNSEL
VERNON J. OWENS, DEPUTY CHIEF COUNSEL
PHILLIP E. COATES, ASSOCIATE COMMISSIONER (OPERATIONS)
M. EDDIE HEIRONIMUS, ASSOCIATE COMMISSIONER (DATA PROCESSING)
NORMAN A. BOLZ, ASSOCIATE COMMISSIONER (POLICY AND MANAGEMENT)
STEPHEN E. TAYLOR, DIRECTOR, FINANCE DIVISION

Mr. ROYBAL. The committee will come to order.

The committee is in session this morning to consider the fiscal year 1986 supplemental request and the fiscal year 1987 budget request of the Internal Revenue Service. We will take up the supplemental request first, and after that hearing we will then move on to the fiscal year 1987 request.

I will ask the Assistant Secretary, John F.W. Rogers to start off the presentation this morning.

Mr. ROGERS. Thank you, Mr. Chairman.

SUMMARY OF REQUEST

I am pleased to have the opportunity to discuss with you the President's fiscal year 1986 supplemental request for the Internal

58-905 O—86——29

User Fees at Certain Small Airports

The Trade and Tariff Act of 1984 (P.L. 98-573) authorizes the U.S. Customs Service to charge user fees for services at certain small airports where the volume or value of business is insufficient to justify the availability of Customs services. The fee will be equal to the expenses incurred in providing the services.

The legislation authorizes Customs to charge a fee for services at certain designated airports, additional locations to be designated by the Secretary of the Treasury. (The governor of the state in which such airport is located must also approve the designation).

Fees which are collected at each airport will be deposited into an account within the Treasury of the United States that is specifically designated for that airport. The funds in the account as provided by appropriation acts, will only be available for expenditures relating to the provision of Customs services at each airport including salaries and expenses of personnel employed to provide such services.

In FY 1987, Customs will continue to provide services for user fees to all the designated airports.

User Fees at Certain Small Airports

Such sums as may be necessary for expenses of the provision of Customs services at certain small airports designated by the Secretary of the Treasury, including expenditures for the salaries and expenses of individuals employed to provide such services, to be derived from fees collected by the Secretary of the Treasury pursuant to section 236 of Public Law 98-573 for each of these airports, and to remain available until expended.

User Fees at Certain Small Airports, United States Customs Service

EXPLANATION OF FY 1987 BUDGET INCREASES, DECREASES AND PROGRAM CHANGES

OTHER CHANGES

Increased costs and user fees.....$290,000

FY 1987 reflects the increased number of small airports being serviced.

DEPARTMENT OF THE TREASURY
USER FEES AT CERTAIN SMALL AIRPORTS, UNITED STATES CUSTOMS SERVICE
STANDARD CLASSIFICATION SCHEDULE

	Appropriation 1985	Authorization 1986	Request 1987	1987 Increase/ Decrease over 1986
Total number of permanent positions	0	0	0	0
Average paid employment	1 *	1	6	5
Object Classification: ($000)				
Personnel Compensation:				
Permanent positions		18	128	110
Positions other than permanent				0
Other personnel compensation		29	78	49
Special personnel services payments				0
Total personnel compensation	0	47	206	159
Personnel benefits		23	73	50
Benefits to former personnel	0			0
Travel and transportation of persons			25	25
Transportation of things			56	56
Rent, communication and utilities				
Standard level user charges				0
Other rent, comm. and utilities		5	5	0
Printing and reproduction				0
Other Services				0
Supplies and materials				0
Equipment				0
Lands and structures				0
Insurance claims and indemnities				0
Refunds				0
Total obligations	0	75	365	290
Unobligated balance	42 *			
Total Appropriation, Authorized Level, and Budget Estimate	42 *	75	365	290

* UNUTILIZED BUDGET AUTHORITY RESULTING FROM THE LATE PASSAGE OF THE FY 1985 SUPPLEMENTAL.

Revenue Service. Commissioner Egger is with me, and he will address the specific details of the IRS proposals.

I am here to express the Department's strong support for the supplemental request of $340 million and 6,950 positions. The supplemental addresses the Department's two primary tax administration concerns: restoring public confidence in the integrity of the system and strengthening compliance.

I want to make it clear that there is no more important priority to this Department than rebuilding the system and ensuring the quality of tax processing.

The experiences of the 1985 filing season were deeply troubling to the Treasury and were a source of great frustration to the taxpaying public. It is my belief that a recurrence of the problems that plagued IRS last year would have a corrosive effect on our society and a devastating impact on the willingness of our citizens to comply with the system.

A one percent drop in voluntary compliance results in revenue losses of almost $6 billion. That is a very important statistic in this time of fiscal constraint with the Federal deficit looming at $200 billion.

The Internal Revenue Service and Treasury have reviewed closely the total requirements for tax processing and taxpayer service programs and have developed a request which provides resources adequate for the Service to perform its responsibilities well.

FILING SEASON

A major portion of the requested supplemental, $181 million, supports initiatives to make this filing season successful. With these resources, IRS will improve the quality of processing operations by greater management oversight and employee training, increase service center staffing to stay current with workload, and expand taxpayer service levels to ensure that IRS is responsive to taxpayer requests for information and account status.

COMPLIANCE AND REVENUE COLLECTION

The second major concern addressed by the supplemental focuses on enhancement of compliance and revenue collection activities.

The tax enforcement initiatives in fiscal year 1986, which total $117 million, include increased emphasis on identifying cases of abusive tax shelters and currency transaction violations, advance hiring for a major revenue initiative to begin in fiscal year 1987 which will generate $10 billion in additional revenue through fiscal year 1991, assistance to states in carrying out audits on foreign and domestic activities of multinational firms, and continued support of our enforcement functions.

MANDATORY COSTS

The remainder of the increases in the supplemental are for required costs to maintain current staff, i.e., printing, postage and space rental.

I want to emphasize that additional resources are requested only where they will support revitalizing tax administration and strengthening enforcement.

GRAMM-RUDMAN-HOLLINGS

I want to point out that the IRS will be subject to the same 4.3 percent cut under Gramm-Rudman-Hollings legislation as all other agencies this year. This sequestration totals $157 million. IRS will cut back on administrative areas, travel, overtime, contracts. At the same time the Service will protect its tax processing, taxpayer service and tax enforcement activities, the high priority items.

Mr. Chairman, I believe that with the initiatives outlined today, adequate funding of service centers, expansion of taxpayer service, and addressing tax abuses, we can make progress against the budget deficit while increasing the confidence of the public in the nation's tax collection system.

The Commissioner would now like to make a statement and then we will be happy to answer your questions.

Mr. ROYBAL. You may proceed in any manner you desire.

Mr. EGGER. Mr. Chairman, before I begin the statement, I would like to note the absence of Mr. Tex Gunnels today. We have been coming up here now for five years, and I miss his presence at these hearings.

Mr. ROYBAL. Tex is unfortunately under the weather today.

Mr. EGGER. I know that.

Mr. ROYBAL. He is ill and we hope he will be here tomorrow or the next day.

Mr. EGGER. I knew that he had a problem.

Mr. SKEEN. Has he got Texas flu?

Mr. EGGER. Sort of.

Mr. ROYBAL. If he has it, it is a big one.

Mr. EGGER. Mr. Chairman and members of the committee, I am pleased to be here today to present the proposed supplemental for fiscal year 1986 for the Internal Revenue Service. First I would like to introduce my associates. Deputy Commissioner, Jim Owens, Fred Goldberg, Chief Counsel, Jean Owens, Deputy Chief Counsel, Associate Commissioner Phil Coates for Operations, Associate Commissioner Ed Heironimus for Data Processing, Associate Commissioner Norm Bolz for Policy and Management, and our Finance Division Director, Steve Taylor.

Mr. Chairman, as you know, today I am making my final appearance before this committee. During my five years as Commissioner, I have enjoyed working with the committee. I want to take this opportunity to express my sincere appreciation for your understanding and consistent, high level of support for the Internal Revenue Service.

STATUS OF TAX ADMINISTRATION

When I became Commissioner, I had no illusions about what I was getting into. I learned from my years as a practicing professional in the private sector that IRS is a large and complex organization.

One of my basic objectives as Commissioner has been to lay the groundwork for IRS to enter the 21st century in the use of information technology. My dedication to the place of information technology in tax administration is even stronger today than the day I came to IRS.

The computer problems we had last filing season were serious. There is no question about that. But we have learned a great deal about managing massive system conversions, and we have learned from our mistakes. So, too, we believe that others will benefit from our experiences.

But with it all, our commitment to continue modernizing and improving Service operations remains. We do not, certainly, intend to let last year's experience repeat itself and, quite frankly, we believe the Service will be stronger and better in the future as a result of the lessons we have learned. Our path to restoring effectiveness to tax processing can best be described in three simple words, back to basics.

The "back to basics" theme will be carried throughout IRS operations. We need to assure that we do not lose sight of our overall mission, the business of being there when the taxpayer calls with a question, of processing the vast number of returns, information documents, and refund checks timely and accurately, and of enforcing the tax laws to identify and collect revenues that are currently owed to the government.

It has become clear that we are unable to carry out these responsibilities within current resources. The budget base is simply inadequate to deal with the complexities faced by tax administration today. The needs of the tax system are great, but the benefits work directly toward the objectives of deficit reduction and a balanced budget. We have been working closely with the Administration to identify the basic needs of the tax system.

GRAMM-RUDMAN-HOLLINGS

Along with other agencies, the IRS fiscal year 1986 operating budget is being cut by 4.3 percent under the Balanced Budget and Emergency Deficit Control Act of 1985. In our case, this amounts to $157 million.

As you know, these cutbacks make no distinction between agencies that produce revenue and agencies that spend revenues. We expect to make reductions by sharply reducing administrative and support expenditures, such as supplies, office equipment, contracts, overtime, and travel, and by restricting hiring where this can be done without direct impact on filing season and revenue producing work.

We do not expect to curtail direct filing season operations or direct revenue producing operations where planned levels of trained staff are critical. However, we are in a position where any reductions to our proposed budget would force us to cut back our work force, including the likelihood of furlough.

Because of the overriding priority of processing and taxpayer service, these staffing cutbacks must fall first to our revenue operations. Serious deterioration of taxpayer service and processing could also occur.

FY 1986 SUPPLEMENTAL REQUEST

In these difficult budget times, we have been through an extensive and rigorous review of what is needed to carry out our basic responsibilities.

As I stated earlier, we have worked closely with the Treasury Department and OMB to establish the clearly essential needs to get tax administration back on a sound foundation. These needs total 6,950 positions and $340 million in supplemental funding for fiscal year 1986.

There is no question that this request is substantial. There is also no question that it represents an investment that must be made if we are to treat taxpayers as they deserve to be treated and collect the revenues. Congressional approval of these resources will be decisive in this regard. Early and favorable action on our supplemental is of urgent importance to the tax filing season which is now underway.

RESTORE EFFECTIVENESS TO TAX PROCESSING

The major part of this request, 5,558 positions and $140 million, is required to overcome deficiencies in our tax processing system and restore it to full effectiveness.

With these resources, we are implementing realistic production rates in our ten service centers. We are improving the quality of processing operations across the board by enhancing review of taxpayer notices before they are issued, improving management oversight, assuring quality control, increasing key verification of tax return data, stepping up the monitoring and control of refund returns, and increasing computer room staffing at our ten service centers to provide for continuous 24-hour a day, seven day a week operation.

In addition, resources are needed to clear up inventories of unpostable accounts, adjustments and taxpayer correspondence, and also to compensate for the decline in recall and retention of experienced seasonal employees.

IMPROVE TAXPAYER SERVICE

An additional 670 positions and $41 million are needed to keep pace with the increased demand of taxpayers for assistance. This request includes funds to cover toll-free telephone circuitry and to phase in the capability for on-line, immediate tax account adjustments, resolving difficulties and avoiding repeat notices and calls.

MANDATORY COST INCREASES

An essential part of this supplemental is to fund certain basic costs of doing business. Additional resources of $42 million are required to cover mandatory costs to reimburse GSA for rent of space IRS currently occupies, to finance higher costs of employee relocation resulting from changes in laws and regulations and to meet rate increases in toll-free telephone circuitry and lease of toll-free equipment systems for taxpayer service. These resources represent a correction to budget deficiencies that OMB has reviewed and approved. We have no choice but to incur these costs.

STRENGTHEN TAX ENFORCEMENT

In last year's Appropriations hearings, I spoke of a major revenue initiative being proposed by the Administration to help curb the growth in the tax gap.

Additional resources have been included in the fiscal year 1987 budget, which I will discuss later. For fiscal year 1986, 332 positions and $14.5 million will ensure the full revenue potential of the initiative. These resources will make it possible to hire and train agents this year so they can be more productive next year.

In the same manner, supplemental funds of 63 positions and $2.7 million are needed to step up efforts to reduce the backlog of tax shelter cases. These resources will allow for hiring and training of appeals officers and attorneys needed to settle tax cases next year.

It has been widely publicized that many banks and financial institutions have been found in violation of currency reporting regulations and have been fined accordingly.

As a result, the number of currency transaction reports received has gone up dramatically. To process this increased volume of currency and cash transaction reports, an additional 255 positions and $6.1 million are required.

It is now expected that some three million documents will be received in fiscal year 1986. These documents are used by all law enforcement agencies and are a key element in combatting organized crime and drug trafficking.

Supplemental resources are also required to prevent severe staffing reductions in our enforcement functions and thus ensure the revenue receipts planned for fiscal year 1986. The amount needed, some $72 million, represents $1 billion in revenue collections.

Finally, our request includes $3.6 million to improve enforcement training, $14.8 million for enforcement-related ADP needs, and 72 positions and $3 million to increase examination of domestic corporations engaging in international activities.

SUMMARY

Mr. Chairman, to my knowledge the Service has never had a more critical budget need than that represented by this request. The successful, uninterrupted operations of the Internal Revenue Service this fiscal year depend on this supplemental being fully appropriated. We are already cutting and deferring expenditures wherever possible to meet our Gramm-Rudman-Hollings reduction.

The high priority that we must give to prompt and accurate processing of returns and to taxpayer service is such that any reduction to this supplemental would necessarily fall on our tax enforcement operations.

Employee furloughs would be necessary. Large revenue loss would be unavoidable. Significant reductions would make it impossible to provide adequate taxpayer service and timely tax processing, resulting in busy signals on taxpayer service phone lines, processing delays, late refund checks, and taxpayer frustration. The American taxpayer deserves better than this.

We are already facing severe problems due to the later filing of returns each year causing a major bulge around April 15. As of February 7, receipts are down two million from the same time last

year, and seven million from the year before. Meeting processing schedules under these conditions places additional stress on resources. This and other problems will be made worse without necessary funding.

The resources requested are already being incurred as we approach the busiest phase of this tax filing season. We have implemented numerous improvements to ensure a smooth, effective filing season this year. However, we cannot continue to operate at this level without the urgently needed funds.

A great deal is at stake, potentially in excess of $1 billion in revenue receipts and, more importantly, renewed public confidence in a tax system that works.

Mr. Chairman, in concluding my opening remarks I want to again convey, on behalf of the Service, our appreciation to this subcommittee for the continued attention and support it has given to the needs of tax administration. My colleagues and I will be pleased to answer questions you or the members may have.

However, prior to that I would like to go through some charts which I believe, Mr. Chairman, will graphically illustrate where we have been, where we are, where we need to go.

Mr. ROYBAL. Will you proceed.

Mr. EGGER. We have the charts down on this end.

[The statement and charts of Mr. Egger follow:]

DEPARTMENT OF THE TREASURY
Internal Revenue Service
FY 1986 Supplemental
Statement of Roscoe L. Egger, Jr.
Commissioner of Internal Revenue
before the
Committee on Appropriations
Subcommittee for Treasury, Postal Service
and General Government

Mr. Chairman and members of the Committee, I am pleased to be here today to present the proposed supplemental for fiscal year 1986 for the Internal Revenue Service. First, I would like to introduce my associates: Deputy Commissioner, Jim Owens; Fred Goldberg, Chief Counsel; Jean Owens, Deputy Chief Counsel, Associate Commissioner Phil Coates for Operations; Associate Commissioner Ed Heironimus for Data Processing; Associate Commissioner Norm Bolz for Policy and Management; and our Finance Division Director, Steve Taylor.

Mr. Chairman, as you know, today I am making my final appearance before this Committee. During my five years as Commissioner, I have enjoyed working with the Committee. I want to take this opportunity to express my sincere appreciation for your understanding and consistent, high level of support for the Internal Revenue Service.

Status of Tax Administration

When I became Commissioner, I had no illusions about what I was getting into. I learned from my years as a practicing professional in the private sector that IRS is a large and complex organization. One of my basic objectives as Commissioner has been to lay the groundwork for IRS to enter the 21st century in the use of information technology. My dedication to the place of information technology in tax administration is even stronger today than the day I came to IRS. The computer problems we had last filing season were serious. There's no question about that. But, we have learned a great deal about managing massive system conversions, and we have learned from our mistakes. So too, we believe that others will benefit from our experiences. But with it all, our commitment to continue modernizing and improving Service operations remains. We do not, certainly, intend to let last

year's experience repeat itself and, quite frankly, we believe the Service will be stronger and better in the future as a result of the lessons we have learned. Our path to restoring effectiveness to tax processing can best be described in three simple words -- back to basics.

The "back to basics" theme will be carried throughout IRS operations. We need to assure that we do not lose sight of our overall mission: the business of being there when the taxpayer calls with a question; of processing the vast number of returns, information documents, and refund checks timely and accurately; and of enforcing the tax laws to identify and collect revenues that are currently owed to the Government. It has become clear that we are unable to carry out these responsibilities within current resources. The budget base is simply inadequate to deal with the complexities faced by tax administration today. The needs of the tax system are great, but the benefits work directly toward the objectives of deficit reduction and a balanced budget. We have been working closely with the Administration to identify the basic needs of the tax system.

Gramm-Rudman-Hollings

Along with other agencies, the IRS fiscal year 1986 operating budget is being cut by 4.3 percent under the Balanced Budget and Emergency Deficit Control Act of 1985. In our case this amounts to $157 million. As you know, these cutbacks make no distinction between agencies that produce revenue and agencies that spend revenues. We expect to make reductions by sharply reducing administrative and support expenditures, such as supplies, office equipment, contracts, overtime, and travel, and by restricting hiring where this can be done without direct impact on filing season and revenue producing work. We do not expect to curtail direct filing season operations or direct revenue producing operations where planned levels of trained staff are critical. However, we are in a position where any reductions to our proposed budget would force us to cut back our workforce, including the likelihood of furlough. Because of the overriding priority of processing and taxpayer service, these staffing cutbacks must fall first to our revenue operations. Serious deterioration of taxpayer service and processing could also occur.

Supplemental Request

In these difficult budget times, we have been through an extensive and rigorous review of what is needed to carry out our basic responsibilities. As I stated earlier, we have worked closely with the Treasury Department and OMB to establish the clearly essential needs to get tax administration back on a sound foundation. These needs total 6,950 positions and $340 million in supplemental funding for fiscal year 1986.

There is no question that this request is substantial. There is also no question that it represents an investment that must be made if we are to treat taxpayers as they deserve to be treated and collect the revenues. Congressional approval of these resources will be decisive in this regard. Early and favorable action on our supplemental is of urgent importance to the tax filing season which is now under way.

Restore Effectiveness to Tax Processing

The major part of this request, 5,558 positions and $140 million, is required to overcome deficiencies in our tax processing system and restore it to full effectiveness. With these resources, we are implementing realistic production rates in our ten service centers. We are improving the quality of processing operations across-the-board by enhancing review of taxpayer notices before they are issued; improving management oversight; assuring quality control; increasing key verification of tax return data; stepping up the monitoring and control of refund returns; and increasing computer room staffing at our ten service centers to provide for continuous 24-hour-a-day, seven-day-a-week operation. In addition, resources are needed to clear up inventories of unpostable accounts, adjustments and taxpayer correspondence, and also to compensate for the decline in recall and retention of experienced seasonal employees.

Improve Taxpayer Service

An additional 670 positions and $41 million are needed to keep pace with the increased demand of taxpayers for assistance. This request includes funds to cover toll-free telephone circuitry and to phase in the capability for on-line, immediate tax account adjustments -- resolving difficulties and avoiding repeat notices and calls.

Meet Unanticipated Mandatory Cost Increases

An essential part of this supplemental is to fund certain basic costs of doing business. Additional resources of $42 million are required to cover mandatory costs to reimburse GSA for rent of space IRS currently occupies, to finance higher costs of employee relocation resulting from changes in laws and regulations and to meet rate increases in toll-free telephone circuitry and lease of toll-free equipment systems for taxpayer service. These resources represent a correction to budget deficiencies that OMB has reviewed and approved. We have no choice but to incur these costs.

Strengthen Tax Enforcement

In last year's Appropriations hearings, I spoke of a major revenue initiative being proposed by the Administration to help curb the growth in the tax gap. Additional resources have been included in the fiscal year 1987 budget, which I will discuss later. For fiscal year 1986, 332 positions and $14.5 million will ensure the full revenue potential of the initiative. These resources will make it possible to hire and train agents this year so they can be more productive next year.

In the same manner, supplemental funds of 63 positions and $2.7 million are needed to step up efforts to reduce the backlog of tax shelter cases. These resources will allow for hiring and training of appeals officers and attorneys needed to settle tax cases next year.

It has been widely publicized that many banks and financial institutions have been found in violation of currency reporting regulations and have been fined accordingly. As a result, the number of currency transaction reports received has gone up dramatically. To process this increased volume of currency and cash transaction reports, an additional 255 positions and $6.1 million are required. It is now expected that some 3 million documents will be received in fiscal year 1986. These documents are used by all law enforcement agencies and are a key element in combatting organized crime and drug trafficking.

Supplemental resources are also required to prevent severe staffing reductions in our enforcement functions and thus ensure the revenue receipts planned for fiscal year 1986. The amount needed, some $72 million, represents $1 billion in revenue collections.

Finally, our request includes $3.6 million to improve enforcement training, $14.8 million for enforcement-related ADP needs, and 72 positions and $3 million to increase examination of domestic corporations engaging in international activities.

Summary

Mr. Chairman, to my knowledge the Service has never had a more critical budget need than that represented by this request. The successful, uninterrputed operations of the Internal Revenue Service this fiscal year depend on this supplemental being fully appropriated. We are already cutting and deferring expenditures wherever possible to meet our Gramm-Rudman-Hollings reduction.

The high priority that we must give to prompt and accurate processing of returns and to taxpayer service is such that any reduction to this supplemental would necessarily fall on our tax enforcement operations. Employee furloughs would be necessary. Large revenue loss would be unavoidable. Significant reductions would make it impossible to provide adequate taxpayer service and timely tax processing -- resulting in busy signals on taxpayer service phone lines, processing delays, late refund checks, and taxpayer frustration. The American taxpayer deserves better than this.

We are already facing severe problems due to the later filing of returns each year causing a major bulge around April 15. As of February 7, receipts are down two million from the same time last year, and seven million from the year before. Meeting processing schedules under these conditions places additional stress on resources. This and other problems will be made worse without necessary funding.

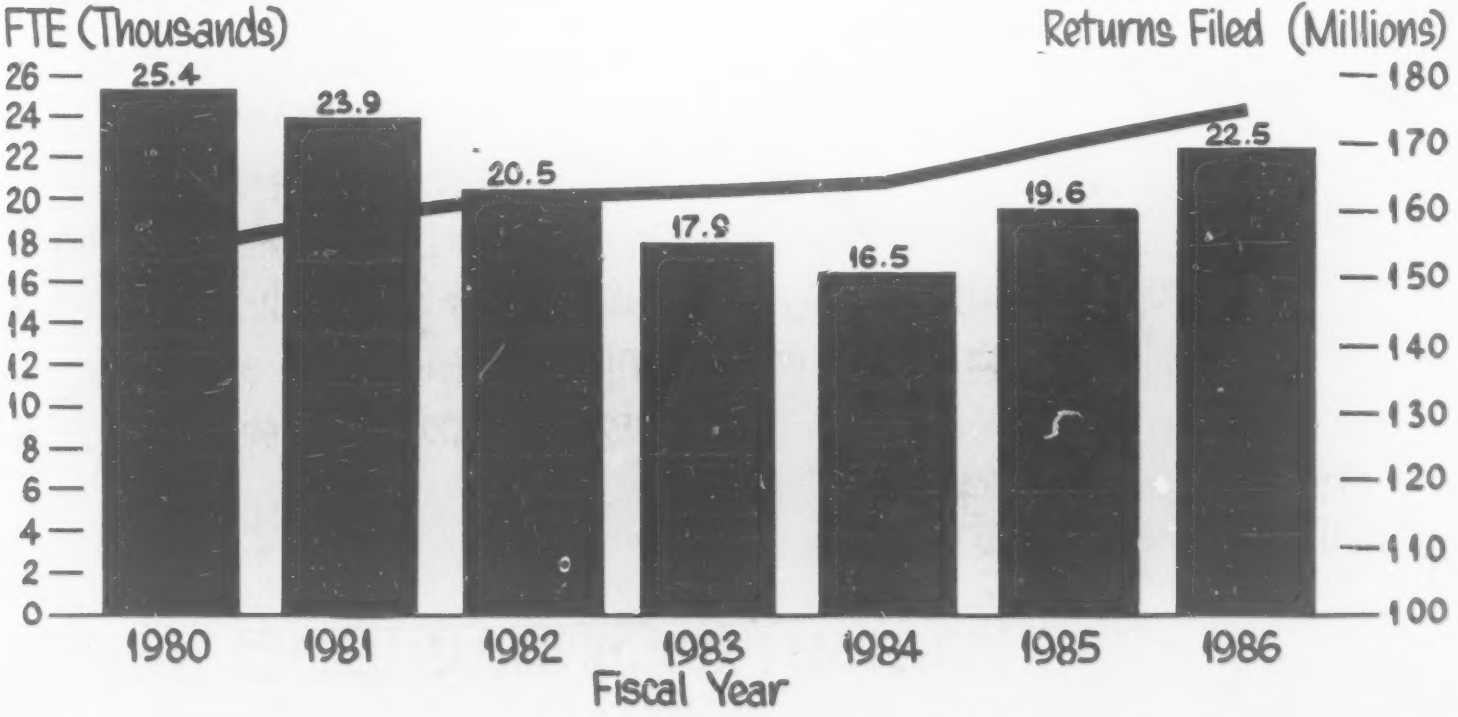
The resources requested are already being incurred as we approach the busiest phase of this tax filing season. We have implemented numerous improvements to ensure a smooth, effective filing season this year. However, we cannot continue to operate at this level without the urgently needed funds.

A great deal is at stake, potentially in excess of $1 billion in revenue receipts and, more importantly, renewed public confidence in a tax system that works.

Mr. Chairman, in concluding my opening remarks I want to again convey, on behalf of the Service, our appreciation to this Subcommittee for the continued attention and support it has given to the needs of tax administration. My colleagues and I will be pleased to answer questions you or the members may have.

IRS Service Center

FY 1980-1986
Staffing and Workload



IRS SERVICE CENTERS

Mr. EGGER. This shows the comparison, the line is the workload, and the green bars represent the staffing in the centers. That is the returns processing part. Back in 1980, as you can see, we had almost 25 and a half thousand people working in returns processing, and you can see how that related to the workload.

As time has gone on, we got to 1984, we dropped down almost 9,000 positions, and at the same time the workload continued to go up.

At the beginning of 1985, that is calendar 1985, we were in essentially the same posture as 1984. However, we had to redirect some 3,400 positions into tax processing out of the other functions in the last year, in order to compensate and to cope with the problems that we had in the filing season as well as to be somewhat more realistic in terms of the staffing of our returns processing operations.

The last bar, 1986, does reflect where we will be assuming the supplemental which we are now talking about. That will bring us in our judgment back up to where we want to be although it isn't anything like the relationship that we had in 1980 and 1981, but the main facts are that we have achieved over those years significant gains in productivity.

The difficulty is that about one-third of the staffing cuts that we experienced up to 1984 were proper reductions based on productivity gains and about two-thirds were excessive, and that is in part what we suffered from last year.

We think this graphically illustrates the path that we are now following to get back to a much more realistic staffing structure in the returns processing.

RESTORE EFFECTIVENESS TO TAX PROCESSING

This is how we plan to use the 5,558 positions that we are going to be using in the service centers, that is in returns processing.

First of all, we must use realistic production rates. As you undoubtedly know some of the production rates that we attempted to achieve with the lower level of staffing and the lower level of training were not realistic. As a result, we ran into more errors and problems which required redoing work.

We believe this will compensate for the decline in the recall and retention of our experienced employees.

As I mentioned in my statement, we have had problems created by the economy. Although it has been great for almost everybody, it has been tough on tax administration in the sense that the experienced employees who historically return to us year after year begin to find full-time employment, and employment with greater pay and so on, in particular areas of the country, such as, for example, in Austin, Texas, where the unemployment rate is very low and where competition for these people is severe.

Also we have still remaining an inventory of unpostables and adjustments and correspondence which simply have got to be cleared up in order to again bring our whole returns processing operations to as error free as we can possibly do it.

We want to improve the training for our new as well as current employees, and to expand our preissuance notice review. We had to cut that back in some places. Management oversight and supervision must be improved. Our span of control in some of these operations in there reached the point of one first line supervisor trying to supervise 60 employees, and it just cannot be done. We have to do something about that.

Quality control has been expanded in a variety of ways. Also we are increasing key verification. That was reduced partly as a budget effort, but also as a recommendation from the Grace Commission, and we discovered that that is a no, no. We should go back and do that, so we are and have reinstituted limited key verification in the centers, and our very, very preliminary experience shows that it is working and needed.

Stepping up the monitoring and the control of refund returns as they go through the system must be done, so we have a better control over not only paper documents but the system as well.

Then finally staffing the computer rooms around the clock, which I again mentioned in my opening statement.

TAXPAYER SERVICE

This next chart is simply a graphic illustration of both the need for and the demand for taxpayer assistance, and as you can see, we are moving up each year. In 1986 we will be able to assist almost 70 million people through our expanded taxpayer service. We believe that we are doing a lot of things to bring innovations to that service, and hopefully within the next year we will be well on the road to introducing account adjustment on line, that is to say, in our call sites when the taxpayer calls in, the assister will not only be able to try to answer questions, but also be able to call up the taxpayer's account on the screen, and make adjustments right there on line, or at least tell the taxpayer much more precisely what is happening to his or her account.

IMPROVE RESPONSIVENESS TO THE PUBLIC

I think I have already dealt with each of these issues. The last one, develop capacity to make immediate adjustments to taxpayer accounts, is an important one. That isn't this year unfortunately, because it is going to require additional equipment which is now on order and additional training, but again I think in the next filing season and on into that subsequent year we will be we think in very good shape on that.

STRENGTHEN TAX ENFORCEMENT

This chart has to do really with the enforcement end of our needs. In order to achieve the full potential for the revenue initiative, which from 1987 to 1991, we believe will produce something over $10 billion in additional revenue, the 332 positions and 14 and a half million dollars will permit us to anticipate and to begin the recruiting and training process, so that those revenue agents will be ready to be productive in the next fiscal year for the full year rather than waiting to do this well into the year.

As we mentioned, we need to increase our effort to resolve backlogged tax shelter cases. This is 63 positions and 2.7 million dollars basically in appeals and counsel, where we have tremendous backlogs. I believe the Chief Counsel can elaborate on this, but we have some $32 billion in potential revenue that is wrapped up in our inventory of cases in the tax court, and it is just a tremendous thing that needs to be brought down as quickly as we can do it.

We want to, as I mentioned, process the rather dramatic rise in currency transaction reports. Starting back in March of '85, we were getting CTR's in at the rate of about 60,000 a month, and by the end of the year we were getting them in at the rate of something over 200,000 a month, so you can see what happened as a result of the banks and other financial institutions finally getting the message.

Increasing our audit of domestic and international operations corporations is the 72 positions and $3 million. Also included is the cost of coping with the unitary tax. We are already working with the states on that, and the supplemental includes $3 million for that purpose.

Then finally to insure collection of tax revenues as we have forecast for fiscal year 86, that is a $72 million figure, and it is basically in order to maintain our present work force, and to train them.

There are two other items that are not on the chart here. That is, improving the training and examination which is $3.6 million, and the data processing systems, which are related directly to enforcement is about $14 million.

I think the best thing we can do is to respond to the questions that you or other members of the committee may have, and do our best to satisfy those things which are questions in your mind.

Mr. ROYBAL. Mr. Egger, before we start examining the state of the IRS, I would like to thank you for the service you have given the nation as a commissioner, and thank you also for the courtesy that you have extended to this committee. Your presentations have always been concise and to the point. You have been most cooperative. You have done an excellent job in my opinion, and we wish you continued success.

Mr. EGGER. Thank you, Mr. Chairman, I appreciate that.

IRS SERVICE CENTERS

Mr. ROYBAL. Now I would like to go over this problem briefly and see if we have the facts pretty well in mind. It is our understanding that during 1985, IRS at 10 service centers had difficulty processing tax returns as they moved through the processing system, and keeping non-return processing case inventories at a manageable level.

Now, as a result in 1985, more refunds were delayed than in prior years. Interest payments on late refunds increased substantially. Many taxpayers had to file duplicate returns to expedite receipt of the funds, and numerous erroneous taxpayer notices were issued. Correspondence and other inventories grew as well. The number of telephone calls from taxpayers grew, and the last item is that overtime costs increased, and the productivity of service center personnel declined significantly. Is that a correct statement?

Mr. EGGER. Yes, sir.

Mr. ROYBAL. I would like to have you and Mr. Rogers give us a brief and concise explanation as to why this breakdown occurred, and whether or not that breakdown was in part or wholly due to a lack of funds.

Mr. EGGER. Yes, sir, I will be happy to respond. Mr. Rogers, I will respond and then you can comment if you would like.

EQUIPMENT CONVERSION

Let me see if I can sketch out for you, Mr. Chairman, what we think was the totality of the problem. To begin with, when I came into office, we were working with a system in our service centers in the vintage of the 1960's, and it was evident to everyone close to the system that it was essential that the system be upgraded, modified and updated.

We began that process. Actually it began back in 1975, but I won't try to go back that far. We began the process in 1981, by signing a contract for new equipment, and beginning the process of upgrading the software. Our own people rewrote some 1,500 programs representing some three and a half million lines of coding from a low level language called assembly language to a higher level language of COBOL.

At the same time, we installed new equipment, and over a period from 1982 to 1985 we were in the process of bringing about that conversion. The new systems, that is to say, the new hardware, was sized with a fairly narrow margin of capacity.

The COBOL programs, which have been rewritten by our staff, ran much more slowly than we had anticipated. We expected that the COBOL programs would run more slowly than the assembly language programs because of their greater capabilities, but we did not anticipate that they would run as slowly as they did in fact run.

We had a lot of programmers who were inexperienced relatively, and needed training and additional experience in COBOL. Some of the equipment which was necessary was late in delivery, and there were some inadequacies in the software to be furnished by the vendor.

Now, that is in the computer part of it, and as a result of that, when we attempted to provide so-called realtime for our districts and our service centers, realtime meaning the time that is needed to access the system to update taxpayer accounts, to correct taxpayer accounts, to post taxpayer accounts and so on, that because of two factors simply wasn't available in anything like the time that it should have been.

Our so-called weekend updates, when we didn't provide real time on the weekends, but took that time to update the system, instead of running out from some time later Friday night to early Monday morning sometimes took until Tuesday to do.

In addition, we had stoppages in the system. We had down time. We had a great deal of reruns that were necessary as a result of stoppages which forced us then to go back and rerun a particular program in the system.

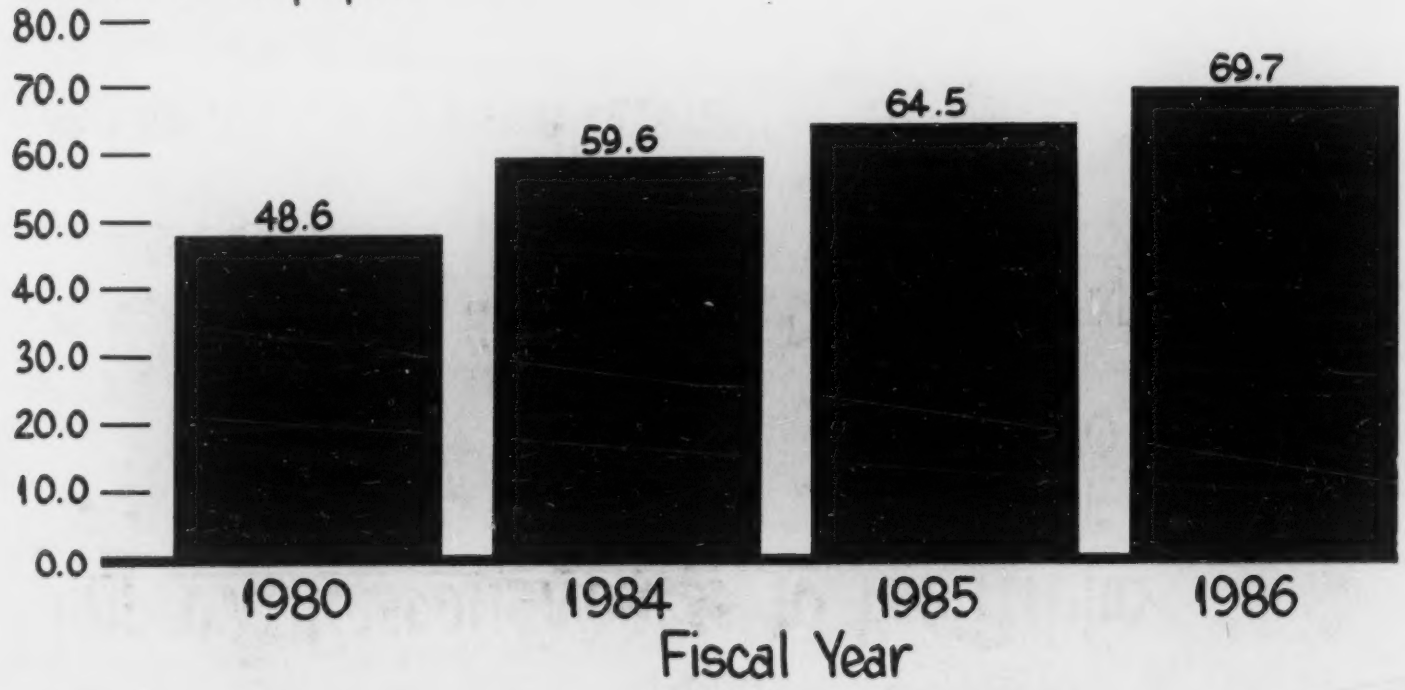
Restore Effectiveness to Tax Processing

FTE	$ Millions
5,558	140

- Achieve Realistic Production Rates
- Compensate for Decline in Recall/Retention of Experienced Employees
- Clear up Unpostables, Adjustments, and Correspondence Backlogs
- Improve Training for New and Current Employees
- Expand Pre-Issuance Notice Review
- Improve Management Oversight and Supervision
- Assure Quality Control
- Provide Limited Key Verification
- Stepped Up Monitoring and Control of Refund Returns
- Staff Computer Rooms Around-the-Clock

Taxpayer Service

Total Taxpayers Assisted



Improve Responsiveness to the Public

FTE	$ Millions
670	41

- Keep Pace with the Increased Demand of Taxpayers for Assistance
- Improve Quality and Accuracy of Taxpayer Assistance
- Develop Capacity to Make Immediate Adjustments to Taxpayer Accounts

Strengthen Tax Enforcement

FTE	$ Millions
722	117

- Ensure Full Revenue Potential of FY 1987-FY 1991 Revenue Initiative by Hiring and Training Agents in FY 1986
- Increase Efforts to Resolve Backlogged Tax Shelter Cases
- Process Increased Volume of Currency and Cash Transaction Reports
- Increase Examination of Domestic Corporations having International Activity
- Ensure Collection of Tax Revenues Forecast for FY 1986

As a consequence, although both the vendor, Sperry Corp., and we, leaped into the problems and essentially opted on dealing with the problems as they came up, it was some time in the late spring before we really got those programs on a much more efficient basis.

In the meantime, the inventories of unpostables and other work had grown dramatically.

STAFF REDUCTIONS

You couple that with the situation which left us, as you say, in that chart, at the start of the season, with some 9,000 positions lower than we had in 1980, and a 12 percent increase in the workload, and with insufficient training, with the short cuts which we had taken as a result of budget squeeze, if you will, such as we eliminated key verification, we cut back on the preissue review of notices and bills, and we had a pretty skeleton work force in our computer rooms in each of the ten centers.

At that time the national computer center in Martinsburg, West Virginia, was the only place where we had the 24-hour a day, around the clock computer room staffing. We did not have it except in a very skeleton way in the ten service centers.

I mentioned the unreasonable span of control. Our workload, as I said, had gone up fairly dramatically at the same time the staffing had gone down.

Mr. Chairman, I don't mean to suggest that the staffing shouldn't have been reduced. We certainly did have some productivity gains there which needed to be recognized and which was part of our role. By the same token, the cuts were too deep, and as a consequence, that left us with inadequate staffing, inadequate supervision and inadequate training.

Mr. ROYBAL. Isn't it so then, Mr. Egger, that funding or the lack of funds was responsible for the situation that you find yourself in now?

Mr. EGGER. It is a combination of that, and the problems which are simply inherent in trying to make a massive computer system conversion such as we did. I think any expert in the country will tell you that the conversion from one system to another of that size and that complexity is bound to have trouble associated with it, no matter what you do.

Mr. ROYBAL. Yes, but even with that trouble you had a 12 percent increase?

Mr. EGGER. Yes, no, no question but what——

Mr. ROYBAL. And then you also had a 9,000 position decrease?

Mr. EGGER. Yes, sir.

Mr. ROYBAL. That was due to lack of money, wasn't it?

Mr. EGGER. Yes, sir.

Mr. ROYBAL. Mr. Rogers.

SERVICE CENTER CONCERNS

Mr. ROGERS. Mr. Chairman, I would add to what the Commissioner has already said. I think the computer difficulties of the 1985 season really constituted the straw that broke the camel's back; that there are systemic problems that have been going on for a longer period of time.

Now, when you take a look at the reductions that have been made from fiscal years 1981 through 1985—the racheting down in the service center staffing, the elimination of key verification, the reduction in training; each one of those considered on their own individual merits probably could have constituted a proper decision, prudent at the time. But, the continuation of these things and the substantial decline in the returnee rate and related productivity decreases in the service centers, resulted in the loss of any sort of fail-safe, if you will. The computer problems exacerbated and made more real those problems.

I think that probably a lot of the reductions, particularly in notice review and management oversight, probably should not have been made.

We have learned that unfortunately that key verification should not have been eliminated. But to go back and to say it is simply a matter of funding, is that in and of itself the reason, and that I didn't ask for enough money, I think obscures the real problem.

Each year when the IRS came forward and asked for what they considered was proper, the request was made considering the circumstances of the day, and I think the computer problems, although real and significant were only part of the problem.

There have been a number of studies that have been done, by the Appropriations Committee and GAO, as well as our own special review, all of which came up with a number of things that related directly to this systemic or longer term problems, inadequate training, elimination of key verification, ADP problems, which were having some difficulties in planning.

That can come about in just about any systems upgrading or change. So, it wasn't simply related only to the computer problems.

Mr. ROYBAL. Let us then agree that computer problems had a great deal to do with it. However you also had people who were not trained, you needed more trained people, you needed more personnel.

You had an increase in your workload, at the same time these reductions that were made, for whatever purpose, though they may have appeared to be prudent at that time, that would not be the question at this time.

But they were made because there were not sufficient funds to do the job, isn't that correct?

Mr. ROGERS. I would say that the supplemental request is based on our judgment after reviewing those circumstances.

FY 1986 APPROPRIATIONS

Mr. ROYBAL. Insufficient funds is the reason these reductions had to be made, in spite of the fact that this committee last year gave the Internal Revenue Service $176 million more than you had requested, and I suppose that the Internal Revenue Service did welcome that, but you didn't get a chance to use it because the bill was vetoed.

Now, the presentation that you made today, has this been made to the Administration? Has it been made to the OMB? Do they know about these problems?

Mr. ROGERS. Absolutely.

Mr. ROYBAL. Well, they knew about these problems before, and still the veto was forthcoming. Are we on safe grounds now? Can this committee proceed, knowing that there is a fair chance that there won't be a veto again?

Mr. ROGERS. I think so, yes, sir. I would tell you in looking back at what this subcommittee had done, the department worked closely both here and in the Senate, and unfortunately, it never realized that amount of money because of the reductions that were made once they went to conference.

I felt that was unfortunate. Enactment of the House level, would have allowed us to have the money up front to make these changes. Now, what we have been put in the position of, unfortunately, making these decisions, which we consider to be prudent, to profect the current filing season and, we are dependent on getting this funding.

If we do not get this funding, if the supplemental isn't provided, then we have, in essence, mortgaged the fourth quarter, if you will, of our spending, and we will be in serious problems at that time.

Mr. ROYBAL. Isn't it true that OMB opposed the House level even in December?

Mr. ROGERS. It was my understanding, that they opposed in terms of the mix with other increases that were considered, but in signals that I got and the way I proceeded, was that we wanted to go to that higher level.

Now, in addition, I know they opposed it, but from the moment that I arrived at the Treasury, I continued to make the case that these increases were needed.

This was not a small problem, and we needed to exceed the President's 1986 level.

Mr. ROYBAL. Mr. Rogers, I agree wholeheartedly in the statements that both you and Mr. Egger have made, but it is very difficult for anyone to adjust to what is taking place.

In one instance, we make more funds available, and the Administration, in fact, tells us they are not needed. Now, they come forward with a request for $340 million, which is a little bit more, of course, than twice as much as we had appropriated last year, over and above your request.

We know that in December OMB opposed the appropriation last year. What is their position today?

ADMINISTRATION SUPPORT FOR SUPPLEMENTAL

Mr. ROGERS. I think their position is they are 100 percent behind this supplemental request, and the only thing that I could offer is that we have been successful in proving to them the need for this money, and that may have taken time.

Mr. ROYBAL. It took a long time, because this committee knew about your needs several years ago. What took these people so long?

Mr. ROGERS. I can't answer that question. I can tell you that they are squarely behind this supplemental request and behind the 1987 increase.

Mr. ROYBAL. All right.

Mr. Skeen.

Mr. SKEEN. Thank you, Mr. Chairman.

Mr. Egger, I want to add my commendation to you for the service that you have given. I am new on the committee, but I certainly have enjoyed working with you.

I understand your problems, and the way you have handled them, I think, is admirable. We hate to see you leave the Service, but life goes on.

I would like to continue along the line of the Chairman. In the first go-around that we had on this appropriation, I think it was very evident, and you made it very clear, that you needed more personnel.

You had a program then, as I recall, increasing the personnel by 2,500 per year for three years.

Mr. EGGER. Yes.

Mr. SKEEN. And we went along with that program and also the ADP portion, and I want to ask you, about the contracting problem that you have had.

Mr. EGGER. Right.

OMB SUPPORT FOR SUPPLEMENTAL

Mr. SKEEN. A little further on, but I want to concentrate first of all on getting the message to OMB.

Trying to educate them is trying to get a burro across a big stream.

Like others here in Congress, I have found it difficult to communicate with OMB.

Mr. HOYER. Be careful on your analogy. Some of us are sensitive to burros being used as an obstacle.

Mr. SKEEN. We have got a lot of them in our country. When we made that request in the bill and we got a veto, we never received clear directions from OMB.

Customs, IRS, and revenue foregone were objectionable to OMB last year, and I am sure that we can use the excuse that OMB said, well, the total package was unacceptable. But I think that we recognized the problem that you have, and you made it very clear to us.

We increased the appropriations for IRS, because you had some problems, and we were right.

And we also knew that at the time we brought the bill to the floor, that we were going to be asking for a large supplemental for this year.

Mr. EGGER. Yes, sir.

Mr. SKEEN. And I am delighted that OMB has finally decided that we were right, not that that is any great gratification at this point.

Is OMB very much in support now of this supplemental?

Mr. EGGER. Yes, sir.

Mr. SKEEN. Well, that is good. We won't hear it on the day that we take it to the floor that we are going to get vetoed.

Is the increase of 5,558 positions to be allocated nationwide.

Mr. EGGER. Yes, sir. That is in all of our 10 service centers.

Mr. SKEEN. Your 10 service centers. They are not in any one particular region like the Philadelphia area where you had a particular problem?

Mr. EGGER. Philadelphia obviously is getting all of the attention that we can give it that we think it——

Mr. SKEEN. That is your biggest problem.

Mr. EGGER. That was the largest share of our problem last year, absolutely, but we are delighted to see the direction that it is going this year. But the 5,558 people are in all 10 service centers.

Mr. SKEEN. Does this supplemental and the new accelerated personnel program, then, reflect a change in the time table that you had, because we were talking about some 7,500, if I am not mistaken.

Mr. EGGER. That is another program.

Mr. SKEEN. It is still in effect.

Mr. EGGER. Separate and apart from that.

Mr. SKEEN. Good. Please explain further.

Mr. EGGER. In the supplemental we have 332 positions which will permit us in the last quarter of this fiscal year to bring on board as many as 1,000 revenue agents and get them training and off and running, so to speak.

Mr. SKEEN. Starting up in the program.

Mr. EGGER. Into the program, and that will be part of the 2,500 that will begin in 1987 and another 2,500 in 1988 and another 2,500 in 1989.

Mr. SKEEN. The 2,500 are all field personnel?

Mr. EGGER. Yes, sir. That is all examinations.

Mr. SKEEN. So, that program is still in effect?

Mr. EGGER. Yes.

Mr. SKEEN. It is appropriated in the personnel you have got.

Mr. EGGER. That is correct.

INTEGRATED DATA RETRIEVAL SYSTEM CONTRACT

Mr. SKEEN. Would you tell me what is going on now as a result of the administrative law judge opinion that was given to you on your contract award on the data processing system?

Mr. EGGER. Right. We have made an award on that contract in accordance with the judge's opinion. We have made an award to SYSOREX as of last week. But we understand that one of the other vendors in there has taken an appeal.

Mr. SKEEN. Protested?

Mr. EGGER. From the judge's actions into the court of appeals, and therefore, I am reluctant to try to comment further.

Mr. SKEEN. That is all right.

Mr. EGGER. Because there is going to be more litigation.

Mr. SKEEN. You had two options. One was that you could go ahead and award to one of the other unsuccessful vendors.

Mr. EGGER. Yes, sir.

Mr. SKEEN. In the first instance that was not successful, or you could recompete or offer this bid in competition.

Mr. EGGER. Our judgement on that was simply that the delay in time had such potentially negative implications that we simply could not take the time.

Mr. SKEEN. The time element.

Mr. EGGER. Also, the vendor to whom we did award undoubtedly would have received the award in the first place had it not been for the price difference.

Mr. SKEEN. How much more is it going to cost?

Mr. EGGER. About $42 million more.

Mr. SKEEN. I want to know how this is going to operate. Did they drop their price or did we do it?

Mr. HEIRONIMUS. There have, to my knowledge, been some negotiations by our contracting folks, and I am told that that difference now is the $42 million figure.

Mr. SKEEN. An increase?

Mr. HEIRONIMUS. An increase, yes.

Mr. SKEEN. That is in the supplemental, too?

Mr. HEIRONIMUS. No, sir.

Mr. SKEEN. That is in your regular appropriations?

Mr. EGGER. Only a small part of that is going to be in this fiscal year.

Mr. HEIRONIMUS. A very, very small part.

Mr. EGGER. That is spread out over——

Mr. SKEEN. Over how many fiscal years?

Mr. HEIRONIMUS. Probably four fiscal years, 1986 to 1989.

Mr. SKEEN. That is the term of the contract itself.

Mr. HEIRONIMUS. That is where the bulk of the expenditure will be. The term of the contract will be seven years.

Mr. SKEEN. Thank you very much.

Mr. ROYBAL. Mr. Hoyer.

Mr. HOYER. First of all, Mr. Commissioner, I want to join the Chairman and our ranking member, Mr. Skeen, in congratulating you for the service that you have given.

In the time that I have been on this committee you have been most cooperative, and I think you have labored under a difficult situation in most cases, where the Administration imposed cuts which were unwarranted and unjustified even under the circumstances that existed at the time that they presented their budget. But notwithstanding, I think you have done a good job.

PHILADEPHIA SERVICE CENTER

As you know, I represent an area that was in a disaster area, the Philidelphia region. There are some awful horror stories.

Mr. EGGER. Yes, sir. I know.

Mr. HOYER. People were hurt by these delays. I wanted to have some hearings on that, but nevertheless, we have certainly discussed the issue at length. I am very hopeful that the Administration, which is responsible, assures us that this won't happen again.

I don't think it is IRS. I think it is the Adminstration's fault.

The Secretary of the Department, Mr. Miller, and ultimately, the President, are responsible, in not asking for sufficient sums necessary for the Service to meet its responsibilities.

In point of fact, of course, what has happened is that you are asking for almost exactly the figure that this committee included, that is to say $156 million that was cut out by Gramm-Rudman will be restored.

One hundred and seventy million dollars that we raised the ante of the Adminstration requests last year comes down, I suppose, to $14 million less than you are considering for now.

In other words, we were exactly right. I think what happened last year was inappropriate, and I would hope that we don't have that occur again. I am sure that the republicans of Pennsylvania are equally as mad as the democrats in Maryland.

Mr. SKEEN. They are a little different breed.

Mr. HOYER. Those folks that didn't get their refunds back didn't notice whether it was the democrats or republicans who weren't giving them their money back. They were mad at everyone, no doubt about that.

Mr. SKEEN. Bipartisan.

MARYLAND SAVINGS AND LOAN INSTITUTIONS

Mr. HOYER. Mr. Egger, going back, I want to congratulate you also for the decision IRS has made with respect to what is a critical problem in the state of Maryland.

At this point in time, as you know, people whose funds are frozen in our savings and loan institutions and the interest that is accruing on those accounts got important relief by your deferral of tax consequences on those accounts and I very much appreciate that. I think it was a sensitive and a correct decision, and myself, the Governor and those affected Marylanders thank you on that.

Mr. EGGER. I do appreciate that.

Mr. HOYER. I know I speak for the government and for all of the depositors. I want to congratulate the Administration to the extent that the Administration participated in that decision.

REQUEST FOR LETTER FROM DIRECTOR, OMB

Do we have a letter from OMB saying they are for this? We have got a lot of letters from Mr. Stockman, and we started getting a lot of letters from Mr. Miller.

We get them about the 11th hour, 49th minute. Do you have a letter from Mr. Miller supporting this proposal?

Mr. EGGER. I do not know that.

Mr. ROGERS. We do not have a letter, per se.

Mr. HOYER. Mr. Rogers, I am not going to vote for it, and I will specifically oppose it until we have a letter explaining why he is for this.

Mr. ROGERS. I would be very happy——

Mr. HOYER. It may have no consequence on the committee or anybody else.

Mr. SKEEN. I will join with you.

Mr. HOYER. Until I have a letter telling us that he is for this and why he is for it, I am going to oppose it.

Mr. EGGER. I presume we will get a letter from Mr. Miller, because you have told me he is supportive of it.

Mr. ROGERS. I will be very happy to request that from him.

Mr. HOYER. Well, in light of your assertions in response to the Chairman's questions, there is no doubt in your mind that he is for it.

Mr. ROGERS. I can tell you that the Secretary of the Treasury is very much in favor of this, and the Department——

Mr. HOYER. As you understand, I am a big fan of your boss. I think he does a good job, not that I don't think Mr. Miller does a good job. I am just somewhat less sanguine about what he supports and what he doesn't support. I want to see a letter.

Mr. EGGER. Mr. Hoyer, I do have to say that it wouldn't be up here if Mr. Miller didn't support it.

Mr. HOYER. I want to see a letter, Mr. Egger. I appreciate your assertions, and I am sure that is the case. I understand that process, but I want to see a letter because I may want to use that in the future.

PHILADELPHIA SERVICE CENTER

Mr. Commissioner, there have been a lot of stories circulating last year on long delays processing tax returns in Philadelphia, what is the principal problem? I have heard assertions made that there was a quota system which might have created an incentive for shoddy work or an over-workload, if you will, on a reduced personnel capacity.

Does such a quota system exist?

Mr. EGGER. No, sir. Let me explain what does exist, what did exist, and what we have done about it.

Over time—and this isn't just for this administration, but it goes back 10 or 12 or more years—there has been a constant downward pressure on the IRS budget and the service centers, particularly in the years when there was little or no major legislative activity in terms of the tax laws, and that hasn't been recent, let me tell you.

But the service centers found that they could operate a little faster and a little faster.

Programs were set which were incentive programs requiring or asking that people in certain functions, particularly data transcription meet certain standards, work standards, and that was based on what had been achieved in one or more centers, based on what had been achieved countrywide and so on and so forth.

In those days, the centers were competing with each other in the sense that we had a syndrome around there called cost per thousand, and it was a meaningless number in the real sense, but the centers began to compete with each other for that on the grounds that that is the way they got merit pay bonuses and SES bonuses and other things.

The pressure to do better than the folks down the street kind of grew up in the centers, and it permeated right down through the organization.

Everybody got more interested in the numbers than they were in how they got there. I am being very candid with you, exactly what did take place.

In the last few years, we have become well aware of the need to change that, and we have eliminated the cost per thousand. That doesn't exist any more and didn't last year.

We are working toward having our centers work as a team rather than in competition, and now this year when we put out the work program, we have said to each director of each center, this is

the program that we have worked out with you. This isn't one we are imposing. We worked it out with you as being realistic. If you believe or if circumstances arise in your center operation where those standards are unrealistic, you change them. You have full authority to change them.

We are in the production business, just as though we were a manufacturer of some kind, and so we have to have product standards which keep the work going, because out of the Philadelphia Service Center, one perfect return a week isn't going to do it, not with the millions of returns we have to deal with.

We think that today we are not hearing the same things we heard last year and the year before about quotas, which is a misnomer, but that kind of problem.

Only this week the Deputy Commissioner was in Atlanta, and the people there at the center were saying we are not hearing that kind of problem any more. We are dealing in a much more realistic fashion. That is what we are after.

Mr. HOYER. Fine. Mr. Egger, this calls an important point to mind. This administration is very enamored with the private enterprise analogy, and I am too. I think the private enterprise analogy works.

It works, however, when the consumer can stop buying the product if, as a result of productivity, the quality goes down. That is what makes the system work, supply and demand, and if the quality isn't there, the demand goes down.

In this case, of course, the consumer has no option. He has got to buy your product.

Mr. EGGER. Right.

Mr. HOYER. And therefore, no matter how much the service deteriorated, the quality of the product deteriorated, the consumer couldn't stop buying, so you didn't have that sensitivity to, in effect, automatically correct the problem until we had a crisis, apparently, but I am pleased to hear this.

IDRS CONTRACT

Mr. Chairman, if I can, two additional questions quickly.

As I understand it, in response to the ranking member's question, Mr. Skeen—as I understand it, GSA, they said you could rebid without the software element in it, which would have saved us $28 million.[1]

Apparently, we don't need the software component at this point in time. Am I correct on that?

Mr. EGGER. I am going to let the experts answer that.

Mr. HOYER. I may not be right on that.

Mr. EGGER. Mr. Heironimus is qualified.

Mr. HOYER. You mentioned the $28 million[1] as related to Mr. Skeen's question. Is that still necessary?

Mr. HEIRONIMUS. The options that were provided by the judge for IRS was to award to a given vendor, SYSOREX.

Mr. HOYER. Which you have done.

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[1] Updated in March, 1986 to reflect a charge in the estimate by IRS from $28 million to $42 million.

Mr. HEIRONIMUS. Which we have done.

Mr. HOYER. The other two options were limited competition or full competition.

Mr. HEIRONIMUS. Limited competition would have permitted us to adjust our needs if we saw fit to do so, and then among those four vendors request proposals. Even that option would have cost us an additional amount of time.

The full competition, we judge, would have cost us the better part of a year and a half in time lost.

Mr. HOYER. What would that have cost in terms of money, do you think? In other words, what I am saying is, am I correct in my assumption that $28 million [1] may have been able to be finessed but it would have cost you more to do that than you would have saved?

Mr. HEIRONIMUS. Some of the $42 million, yes. The thing that I think we have to bear in mind is the age of the equipment that we are replacing and that it continues to be in operation. It continues to require maintenance, and the maintenance of this equipment, because of the age of it, is becoming exorbitant.

We are in the posture where this equipment is no longer manufactured. Parts are no longer manufactured, and the vendor is really trying to get out of the contract because it is so costly for him to maintain this equipment.

Factoring in that kind of cost tends to minimize the impact of the $42 million.

Mr. HOYER. The last question, maybe Mr. Rogers or Mr. Egger, whichever one.

REQUEST FOR ADDITIONAL STAFFING

You are asking for a supplemental—I understand 55 hundred plus employees (FTEs) will be added as a result of the supplemental, is that correct?

Mr. EGGER. Sixty-nine hundred.

Mr. HOYER. As I understand it, in the 1987 budget, you are eliminating—you are proposing to eliminate 3,000 average nonrecurring positions. I am not sure how striking 3,000 average nonrecurring positions really impacts on IRS. You are going up six and down three. Is that a proper comparison or not?

Mr. EGGER. Yes. We are anticipating, I think, that in fiscal year 1986 we will have cut down on our backlogs by a considerable amount. That being the case, then we no longer need quite as many people to do the job on an ongoing basis. Right now we are not only doing the job on an ongoing basis, but we are also trying to play catch up from the inventories and so on that have built up over the last two years.

Mr. HOYER. Is it fair to state that you won't eliminate the 3,000 nonrecurring positions until, in fact, you have accomplished your goal of top quality service?

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[1] Updated in March, 1986 to reflect a change in the estimate by IRS from $28 million to $42 million.

Mr. EGGER. It is fair to say that the Service must not shirk the chore of getting these backlogs down and providing top quality service to the tax paying public.

Mr. HOYER. I have already spent too much time, Mr. Chairman. Thank you.

Mr. ROYBAL. Mr. Skeen.

IDRS CONTRACT

Mr. SKEEN. Mr. Egger, going back, I want to ask a little follow up on this SYSOREX system. Time was critical, evidently, after the opinion was rendered and you re-examined this contract it put you in a position, then, of exercising all the options. That is why you could not get an accelerated bid or you chose not to go back and rebid this contract on an accelerated time frame because of the difference in service on options, expedited RFP.

Mr. HEIRONIMUS. All the avenues were explored, sir, including the budget impact, because of the increased cost and the timing which is so critical to our need.

The four largest centers, can no longer add additional terminals which they critically need to do their job. Their work is increasing, and they can't physically plug in.

Mr. SKEEN. You have reached the maximum.

Mr. HEIRONIMUS. That is correct. We have been at the maximum in those four centers for approximately a year and a half, and any delay in getting that equipment installed, tested out, and then installed in the other centers would be critical.

Mr. SKEEN. You, obviously, then made the consideration.

Mr. HEIRONIMUS. Yes.

Mr. SKEEN. But time was still the critical element.

Mr. HEIRONIMUS. Yes.

Mr. SKEEN. I was a little surprised about the year. You said it had taken almost a year to go through the RFP process.

Mr. HEIRONIMUS. By going even to the limited expedited competition, a vendor could, as I understand come in with a totally new proposal, and once that is done, then the work involved in evaluating that proposal with the other proposals would become a very time consuming process.

OMB APPROVAL OF BUDGET REQUEST

Mr. SKEEN. One last question. When you sat down with OMB this time, did they give you what you requested? I want it in writing.

Mr. EGGER. They are complete, Mr. Skeen.

Mr. SKEEN. It was what you asked for?

Mr. EGGER. The Office of Management and Budget went along with what we asked for. We made our case with them, and they essentially gave us what we asked for.

Mr. HOYER. It is sort of like people waiting in the gas line for about six hours. They will pay anything as soon as they get up to the pump. It took a crisis to get their attention.

Mr. ROYBAL. Mr. Wolf.

Mr. SKEEN. Thank you, Mr. Chairman.

Mr. WOLF. Thank you, Mr. Chairman.

Mr. Egger, I want to wish you well wherever you are going. Every time I have ever had a problem, you have been so cooperative, and you are a very decent person, and I wish you well.

Mr. EGGER. Thank you, Mr. Wolf.

PROPOSED TAX CHANGE IN FEDERAL EMPLOYEE ANNUITIES

Mr. WOLF. I want to ask you questions on a different issue. I have been in touch with IRS, and your people told me you have gotten these figures. I would like to have your comment and Mr. Rogers', too.

As you know, the tax bill in the House eliminates the three-year basis recovery rule, and as a result of that there are a lot of federal employees who are retiring and a lot more that are seriously considering it if this stays in the Senate bill.

The figures that I have gotten from IRS show that between November of 1985 and March of 1986, 22 of your top 247 people retired. That is 9 percent.

Has that figure ever happened before? Have you ever lost 9 percent of your top people?

Mr. EGGER. I don't recall any time in my experience when we have lost as many people within that short time frame. Back when we had the pay caps, as quickly as our executives reached age 55, they were gone. That is not the case today.

A lot of our very, very valuable people with institutional knowledge are staying with us. We are pleased about that. This, I think, is an aberration in the sense that it is unusual.

Mr. WOLF. Mr. Rogers, you talk to Mr. Baker every day. You might make this point that this is an aberration, and this is not because of the weather. We have got a mild winter here. It is because of what was in the Administration's tax bill, and I want to develop this just a little bit farther.

Between March and the remainder of the fiscal year, another 27 are eligible to retire, most of whom have indicated, we have been told, that they are going to retire. I would venture to guess, I am not going to put anybody back here on the burner and ask them if you have plans to retire, but that is another 27 who are eligible, and we have been told—my information may not be totally accurate—that most will retire if the annuity tax change is passed.

Will that cause trouble for IRS in the process of doing all the things that we know you are capable of doing?

Mr. EGGER. We always have problems when we have a large number of executive positions to fill. However, I am pleased to say right now that I think we only have about five that are still open. We have been able to fill them very quickly, and the reason for that was that we had an executive development class that graduated last summer, and those people were available to move right on into these positions, and we will be starting another one.

Mr. WOLF. But they are available to move in. When I lose a legislative assistant, I get another good legislative assistant. I have got a good staff, but that person who moves in doesn't pick up right off. That first month they are not going full steam. They have to learn where the filings are. Is not that the same case?

Mr. EGGER. Of course.

Mr. WOLF. So, they are as good intellectually and everything else, but they are really not up to speed the same way as the other persons.

Mr. EGGER. It certainly takes time for them to move into the new position.

Mr. WOLF. So, that is 9 percent between March of 1985, and now we have got another 11 percent.

Now, in your supplemental, I am just trying to take this thing to make a point, we have a letter from Mr. Wilson, the Deputy Assistant Secretary for Departmental Management.

He says 6,506 Treasury employees will be eligible to retire by July 1, 1986. That is 5 percent of your work force. In your supplemental you are asking for 6,900 new people. As they come in the front door, you could be losing them in the back door. What impact would this have? How hard would this hit an individual, let's say, who has been with the government for 30 years.

What would this do to your program that you told Mr. Hoyer and the Chairman, if you brought in 6,900 new people and 6,500 ran out the back door?

Mr. EGGER. Well——

Mr. WOLF. We have demonstrated that you have never had 20 percent of your IRS top people leave before. I am obviously getting information from your people, Mr. Egger, although I am sure they are very candid with you, I think some of your employees may be more candid with me, telling me what this is doing to morale, not just IRS, but Navy, DOD, across the board.

What would this do to your program if you lost this 20 percent?

Mr. EGGER. I think that we are in a position to deal with that, because we have such a large number of our work force are seasonal people and part time and so on.

My belief is that——

Mr. WOLF. But these are not part-time people. Part-time people would not be retiring. These are full-time active duty full fledged IRS people.

Mr. OWENS. If I may make one point, Mr. Wolf, I think there are two different classes of people. That does not minimize the impact of losing a long experienced employee in the executive branch, but the ones we are talking about at the service centers are probably not the ones that are going to be retiring, five or six thousand, whatever the numbers be.

It is a different group of people. It will have an impact, but it won't have an impact that——

Mr. WOLF. These are all eligible to retire.

Mr. OWENS. Yes.

Mr. WOLF. Won't that have an impact?

Mr. OWENS. My assumption is those are not the people that are processing the tax returns. They are revenue agents or special agents, and it will have an impact. Any time you lose an employee that is trained there is no question about it.

Mr. EGGER. It is like any other departure of individuals. It always leaves a gap.

Mr. WOLF. I think we have proven—Mr. Rogers, I might want to ask you a question, because I don't want to put Mr. Egger on the spot here about this—what are your thoughts about this?

Mr. ROGERS. I am concerned about it as it affects the Department. I am very concerned about it, and I have seen the results, not necessarily alone in IRS, but in some of the other bureaus of the Department.

Mr. WOLF. And I am not taking it out on you, because I know you didn't draft the bill, and frankly, a lot of the fault lies with the Congress. The Congress had an opportunity—Mr. Hoyer was right out in front of this—to vote down the rule, come in and change this thing, frankly, so as much blame is up here, because we had an opportunity to look at it, and we are trying to correct this proposed change in working with Mr. Packwood. We are hoping that the Senate takes it out.

SAVINGS BOND BROCHURE

I would urge you to have Mr. Baker really do something. I think this is an important fundamental in keeping the good people that you have. You have so many good people, but throughout the government we are facing a problem. This is not your fault, but there is a brochure advertising this 3-year basis recovery rule as a reason for Federal employees to buy savings bonds. I can furnish it to you if you don't have it, if you want to look for it. It is U.S. savings bonds brochure.

It is a Treasury bond brochure which has a big bold print on it, and it says, buy your Treasury bonds, your savings bonds, now, because you can cash them in the year that you retire, and your taxes will be down.

So, in essence, there is truth in advertising that is being violated. One of the branches in the Department of the Treasury is selling Treasury bonds based on the fact that you can retire, and the other office just down the corridor is pushing this provision, which would just mean that they couldn't do that.

I think you should consider suspending the Treasury bond movement advertising this benefit which tells people about this, because there are a lot of people that still don't know about the pending recovery rule change. Believe it or not, I am finding teachers and policemen and firemen and people like that that really aren't even aware of what is in this bill.

Could you take a look at that and see?

Mr. ROGERS. I would be happy to. I would say off the top of my head I am sure that was not issued as a result of the tax bill or as some extra sort of advertising or promotional effort to sell bonds to take advantage of this situation. People have information to make this decision. But in light of your concern, I will be very happy to take a look at it.

Mr. HOYER. If the gentleman will yield, the brochure preceded the proposal. What the congressman is saying, on the one hand you are advising people on a tax break that they can get and therefore are counseled to buy U.S. savings bonds. Congressman Wolf made the point on the floor very well.

On the other hand, you take it away from them.

Mr. ROGERS. I would be happy to take a look at it. I know there has been continuous material out of savings bonds before the bill that talked about the effects in terms of retirement.

If this was the case, I will take a look at it. I agree with you, it does not make much sense.

Mr. WOLF. I think it ought to be pulled, or better yet, it ought to be pushed and then you ought to pull back——

Mr. HOYER. Don't pull the wrong thing, Frank.

Mr. WOLF. Push the brochure and pull the other.

We have been told, too, that this would not actually bring in any additional revenue when you look in terms of what the impact will be in terms of retirement program outlays and what the impact is on retraining. Mr. Rogers, I would really appreciate it. I will certainly ask your boss.

Mr. ROGERS. He will be here, as you know, so you will have that opportunity to ask him, but I will advise him that the question is going to come.

Mr. WOLF. He is probably sympathetic, too. I think this was kind of put in, and a lot of people just kind of ignored it, and it didn't catch on until the end.

The Congress kind of didn't want to look like they were buckling under any pressure. Now, if we can all come together in the spirit of reconciliation and say, let's take this provision out, let's allow the federal employee to know that this is not going to be in danger, then, I think, what this will do, Mr Rogers and Mr. Egger is you will be able to keep most of these people, and I think you won't lose your top people, and I think it will not only help IRS but it will really help government-wide, so I would appreciate it.

Mr. ROGERS. I will be happy to.

Mr. WOLF. Thank you very much.

Mr. ROYBAL. Mr. Akaka.

Mr. AKAKA. Thank you very much, Mr. Chairman.

IMPACT OF NOT APPROVING SUPPLEMENTAL

Mr. Egger, I am sure the question was asked before you came in, and I am sure the committee would like to have it for the record.

What would happen if you did not receive the $340 million you are asking for?

Mr. EGGER. Any of it?

Mr. AKAKA. Yes.

Mr. EGGER. I don't think I want to be around to see what is going to happen. It will be a disaster. We simply could not go through this season. We would have to start furloughing people right now, tomorrow, out of our enforcement efforts, and I don't think we could even get through the filing season if that whole amount of money disappeared.

Mr. AKAKA. It is critical that you get every bit of that.

Mr. EGGER. Absolutely critical, yes, indeed.

FY 1985 UNOBLIGATED BALANCE

Mr. AKAKA. My only other question would be on your unobligated balance, there is a statement here for 1985 of $64.3 million; in 1986, the unobligated balance is $35.3 million.

My question is how did this come about? what causes this unobligated balance?

Mr. EGGER. We have for a number of years, thanks to this committee, had a part of our appropriations in so-called no-year funding, the reasoning, of course, it is necessary to be able to go ahead and incur costs on a long-term basis, particularly in the computer systems area, where we don't know whether all of that money can be spent within this year. But nonetheless, we need the assurances so we can go ahead and contract for the systems, and so they have provided us with no-year funding for various amounts, $50 million one year, and I think we have even been up to $100 million at one point, and this would represent simply the unexpended portion of those no-year funds that have been appropriated.

Mr. AKAKA. What authority do you use to expend those funds?

Mr. EGGER. The authority is already granted when it is appropriated, and the appropriation language provides us that authority.

Mr. TAYLOR. I would add, Mr. Congressman, that for our regular appropriated amounts not covered by no-year funding we used all but about six or seven hundredths of a percent of what the Congress gave us.

Mr. AKAKA. Thank you very much, Mr. Chairman.

Mr. EGGER. In fact, it was so fine that we were quite nervous the last few days.

Mr. ROYBAL. Thank you, Mr. Akaka.

FY 1986 FILING SEASON

Mr. Rogers, Mr. Egger, I would like to thank you for your testimony. I would like to ask one last question, if I may. That is in the statements that you both made, you said that resources that are requested are already being used.

Mr. EGGER. Right.

Mr. ROYBAL. As we approach the busiest phase of this tax filing season, while those are your words, Mr. Egger, Mr. Rogers, I think in the statement that he made, concurs with that. Does that mean then that you are spending already at the level that this committee authorized last year?

Mr. EGGER. Yes, sir.

Mr. ROYBAL. Including the $171 million?

Mr. EGGER. Right. Let me say that we had to make the decision, as a management responsibility, to go forward in a responsible way this year, and that requires that we spend at that level, so we are doing that.

Mr. ROYBAL. You went on to say that, "We have implemented numerous improvements to insure a smooth, effective filing season this year."

Mr. EGGER. Yes, sir.

Mr. ROYBAL. You go on to say that, "We cannot continue to operate at this level without the urgently needed funds." Those are the funds that you are requesting now of $340 million.

You further state that, "A great deal is at stake, potentially in excess of $1 billion in revenue receipts."

Mr. EGGER. Yes, sir.

Mr. ROYBAL. And then more importantly, "the renewed public confidence in a tax system that works."

IMPACT OF NOT APPROVING SUPPLEMENTAL

The question has already been asked, what will happen if this is not approved. The chances of it not being approved are very good.

Mr. EGGER. We sorely need that information, Mr. Chairman.

Mr. ROYBAL. I think a great deal of work has to be done in order to get it through the House, and I say that from various meetings that I have attended, where my colleagues have told me that they would definitely not vote for a supplemental, that they didn't vote for Gramm-Rudman just to come back and vote for a supplemental.

They wouldn't do it. I don't know just how many people in the House continue to hold that particular opinion, but it is going to be most difficult for this committee to get it through.

Now supposing that we were successful and if the supplemental is not enacted into law until, let's say, July or August, what impact will that have on the 1986 filing season?

Mr. EGGER. Mr. Chairman, if we go as far as July or August without this authorization we will have passed the point where we will have to cut back drastically, first on enforcement, and then subsequently, of course, on the returns processing itself. If that happens, there will be significant revenue lost as a result.

Mr. ROYBAL. You realize that this matter has to get through this committee.

Mr. EGGER. Yes, sir.

Mr. ROYBAL. Then go through the Full Committee, then to the House, that the Senate must concur before it actually goes into effect.

Mr. EGGER. Right.

Mr. ROYBAL. And that that may take some time.

Mr. EGGER. Yes, sir.

Mr. ROYBAL. It cannot be done immediately. However, it is quite possible that because of the difficulty under Gramm-Rudman, that it may not pass until some time in late June or the first of July.

You tell me that that would be most detrimental, is that correct?

Mr. EGGER. It certainly will.

URGENCY OF SUPPLEMENTAL

Mr. ROYBAL. If that is so, why is it that OMB did not classify it as an urgent supplemental?

Mr. EGGER. I believe—I guess I can't answer that for sure.

Mr. ROYBAL. Because they did not classify it as an urgent supplemental. Your presentation here indicates a tremendous urgency.

Mr. EGGER. Yes, sir.

Mr. ROYBAL. OMB apparently doesn't agree. It did not classify it as an urgent supplemental. Members of this committee have said what we want is letters from various individuals. I am asking, or suggesting, that in order to pass this piece of legislation, that a great deal of work has to be done with the leadership of both sides of the aisle, has to be done primarily in the House, and once it has passed the House, then that work has to be done in the Senate.

Mr. EGGER. Yes, sir. We understand.

Mr. ROYBAL. Can we start with OMB, for example, at least reviewing this, and at least coming to a conclusion that this is important, and that it is urgent?

Mr. ROGERS. I think, Mr. Chairman, we can. I don't think OMB has submitted what they consider to be an urgent supplemental, and they are in the process of doing that, and we are going to do everything we can to have this classified as urgent.

[See OMB letter on page 949.]

Mr. ROYBAL. Why is OMB always so late?

Mr. ROGERS. I can't answer that question.

Mr. ROYBAL. Everybody seems to be way ahead of OMB. Anyway, we will look at the entire matter and act accordingly.

Mr. HOYER. Maybe they are understaffed.

Mr. ROYBAL. OMB is not understaffed. They take good care of themselves.

Mr. EGGER. We recognize the problems, particularly the political problems here on this thing on this effort, and we are certainly, John Rogers and I, are going to make every effort we can to make it possible, and that will include working with OMB and the leadership in both Houses.

Mr. ROYBAL. We are just about ready to adjourn the meeting, but I see Mr. Coleman is present. Will you please proceed, Mr. Coleman, in any way that you may desire.

Mr. COLEMAN. As I understand it, a lot of questions have been answered. I will have to look at the record. I apologize for having to go to another committee meeting.

STAFFING LEVELS

I guess the only thing I would ask is whether or not my numbers are correct. In the fiscal year 1986 request, the President asked for 86,489 tax return processors. Our bill had 90,749. That was vetoed.

The continuing resolution wound up with 86,774, and now we are asking for 5,558.

Mr. EGGER. Six thousand nine hundred and fifty.

Mr. COLEMAN. I am talking about the tax return processors.

Mr. EGGER. Five thousand five hundred and fifty-eight.

Mr. COLEMAN. And then in fiscal year 1987 we are requesting a cut of 2,733.

Mr. EGGER. And we did discuss that a bit earlier, but let me simply say to you that it is our expectation that the number of people we are asking for in this fiscal year will permit us to pare down the inventories and the backlogs that we still have, so that we won't need as many people then in the ensuing year to maintain the position.

Mr. COLEMAN. It would appear that a lot of us wonder if we will be assured we will not experience another backlog because of the timeframe the Chairman just referred to in actually getting these positions. I have great concern that we will eliminate that backlog.

Mr. EGGER. We certainly expect to do that, Mr. Coleman. Our filing season to date is a dramatic improvement over the prior year, in literally every aspect, and we have great confidence that we have turned that corner.

Mr. COLEMAN. Was there fire damage at the Austin Service Center, last year?

Mr. EGGER. Brookhaven.

Mr. COLEMAN. Is that where it was?

Mr. EGGER. Yes, not Austin. We had a fire problem in Brookhaven, and then we had a storm problem in Kansas for a little while this year.

Mr. COLEMAN. Those are properly funded for repair?

Mr. EGGER. Yes.

Mr. COLEMAN. That is all I had, Mr. Chairman. Thank you very much.

Mr. ROYBAL. Thank you, Mr. Coleman.

Mr. Egger and Mr. Rogers, I thank you for your testimony. We would like to submit questions for the record. If you will answer them, it will be most advantageous to this committee.

Mr. EGGER. We will be most pleased to do that.

Mr. ROYBAL. In more ways than one, thank you very much.

We will then adjourn until 2:00 o'clock this afternoon, at which time we will take the 1987 budgetary request.

Mr. EGGER. Thank you very much.

[The letters, questions and answers for the record and justification follow:]

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAR 13 1986

Honorable Edward R. Roybal
Chairman, Subcommittee on Treasury,
Postal Service, and General Government
Committee on Appropriations
United States House of Representatives
Washington, D.C. 20510

Dear Ed:

I am writing to reiterate the Adminstration's support for the $340 million in supplemental funds for the Internal Revenue Service (IRS) requested in the President's budget, and to urge quick action by the Committee.

Additional staff and computer resources are urgently needed to prepare for the rapidly approaching peak filing period and to ensure that the 1986 filing season runs smoothly. These resources are important to restoring the public's confidence in the ability of the IRS to process tax returns in a timely and accurate manner.

I am also seeking your support for funds to allow advance hiring of auditors and tax litigation and appeals staff in preparation for initiatives in these areas in 1987. Because of the high priority that must be given to service center operations this year, any reductions from the requested amounts will directly affect these and other enforcement programs and could result in significant revenue loss.

The Administration fully supports this supplemental and seeks your assistance in speedy passage of the full $340 million requested. I appreciate your support and cooperation.

Sincerely,

Joseph R. Wright, Jr.
Deputy Director

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COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

March 13, 1986

The Honorable Edward R. Roybal
Chairman, Subcommittee on Treasury, Postal Service
and General Government
Committee on Appropriations
U. S. House of Representatives
H164 Capitol
Washington, D. C. 20515

Dear Mr. Chairman:

We are writing to you regarding a matter of continuing mutual concern, the adequacy of the Internal Revenue Service's staffing and funding levels. We are writing at this particular time to share with you our determination that the IRS's pending supplemental appropriation request for Fiscal Year 1986 should be approved on an expedited basis.

On March 4, 1986, the Subcommittee on Oversight held a hearing to review the progress of the 1986 tax return filing season. The Subcommittee particularly wanted to know whether the problems that plagued last year's filing season have been resolved in time to ensure a smoother processing of tax returns and issuing of refunds. At that hearing IRS Commissioner Roscoe Egger emphasized the urgent necessity for immediate passage of the $340 million supplemental request. The Commissioner testified that unless the supplemental request is approved early this year, IRS will have to take such drastic measures as furloughing 50,000 personnel. The U.S. General Accounting Office confirmed the urgent nature of the supplemental request. We concur. However, we do not recommend this action unless and until the Office of Management and Budget concurs that this is an "urgent--urgent" matter, and that it must be acted on now.

Your Committee -- as ours -- has long recognized the folly of underfunding the Internal Revenue Service, the primary revenue producing arm of the Federal Government. It is a tragedy that we are faced with an IRS that is rapidly running out of money. The responsibility for this predicament lies with the Administration which repeatedly denied the need for additional IRS funding during the

Subcommittee's hearings last year. Indeed, it is reprehensible that the President vetoed the Treasury appropriations bill last year which provided the additional funding IRS needed.

It is up to the Congress now to provide enough funding to keep IRS going in 1986. We -- on a bi-partisan basis -- must continue to act responsibly on behalf of all taxpayers. We understand that the Office of Management and Budget has, in the last few days, classified the IRS's supplemental request as an urgent request. However, let us again emphasize that we do not recommend any action unless and until OMB formally informs the Congress that this is an official urgent request for supplemental funds.

We appreciate your continued interest and cooperation in making sure that IRS receives both the broad congressional support and material resources it needs to effectively administer our federal tax laws, and we are pleased to provide this assistance to you.

Sincerely,

Dan Rostenkowski
Chairman

J. J. Pickle, Chairman
Subcommittee on Oversight

JJP/rgw

cc: The Honorable Jamie L. Whitten

PAYMENT OF INTEREST

MR. ROYBAL: Besides the obvious inconvenience to taxpayers, delays in issuing refunds cost the federal government money because IRS is generally obligated to pay interest on any refund that is not issued within 45 days of the date the return was filed, or the return due date, which ever comes later. How is the processing of individual returns involving refunds proceeding this year?

MR. EGGER: The 1986 Filing Season is progressing very well. We have encountered no significant problems with the processing of Forms 1040 Individual Income Tax Returns. In comparison to last year the number of returns filed as of February 14, 1986 is 7% less (20.1 vs 21.6 million). However, we have issued 4.1 million refund checks as of February 18, 1986 vs 2.5 million issued last year for the same period.

MR. ROYBAL: How long can a taxpayer expect to wait this year to obtain a refund?

MR. EGGER: Refunds are currently being issued in four to six weeks from the date the returns are received.

MR. ROYBAL: How much interest did IRS pay on refunds in 1985?

MR. EGGER: As of December 27, 1985, we had paid $49,530,190 on returns filed by April 15, 1985.

MR. ROYBAL: What does IRS expect to pay in interest this filing season?

MR. EGGER: IRS expects to pay interest on no more than 1.9 million refunds which will contain interest in the amount of approximately $38 million.

EXPEDITE REFUND PROGRAM

MR. ROYBAL: In 1985, IRS established the Expedite Refund Program under which a taxpayer who had not received a refund within 16 weeks could file a duplicate return that would then receive expedited processing by IRS. As of October 11,1985, the service center had received a total of 308,240 duplicate returns.

How many duplicate returns were received at each of the service centers for the entire 1985 filing season?

MR. EGGER: By January 31, 1986, we had received a total of 328,491* duplicate refund returns. Each center received the following volumes:

Andover Service Center	6,852
Atlanta Service Center	33,267
Austin Service Center	38,905
Brookhaven Service Center	20,607
Cincinnati Service Center	5,631
Fresno Service Center	16,622
Kansas City Service Center	11,283
Memphis Service Center	17,889
Ogden Service Center	9,753
Philadelphia Service Center	167,682

MR. ROYBAL: Did all duplicate returns involve refunds, and were all the refunds paid?

MR. EGGER: In addition to the 328,491 duplicate refund returns that we received, we also received 1,097 duplicate balance due returns. Upon receiving the duplicate returns, the service centers conducted research to determine if the original returns could be located. Based on this research, only 193,560 of the duplicate refund returns had to be processed; the remaining returns were located in the service centers. Of this volume, 651 refunds remain to be issued. We are continuing to expedite the remaining refunds in inventory.

MR. ROYBAL: Does IRS expect to establish another program this year for processing duplicate returns?

MR. EGGER: Based on the improvements that have been made to our service center processing system, we do not believe that last year's problems will recur. Consequently, we do not anticipate that the duplicate return program will need to be continued.

* In order to ensure that all affected taxpayers received expedite treatment, service centers included duplicates other than the Expedite Refund Program in their inventories.

NOTICE REVIEW

MR. ROYBAL: In a November 1, 1985 report, IRS' Office of Internal Audit stated that "Certain business tax returns and tax payments were not timely processed which caused erroneous notices. These notices either incorrectly advised taxpayers that they had not filed tax returns when they had already filed or erroneously billed taxpayers when they had already made payments."

The most prominent example involved a Federal Tax Deposit tape that was not processed in a timely manner by the Philadelphia Service Center causing most of the 26,000 business taxpayers whose deposits, totaling about $296.9 million, were recorded on the tape to receive at least one erroneous balance due notice.

Another example of an untimely processed computer tape involved about $3 million in payments from about 5,600 taxpayers. This tape, which was not timely processed by the Kansas City Service Center, caused erroneous collection actions, including the issuance of 114 erroneous levies. Service center collection staff had to call the affected taxpayers and levy sources to determine the status of the levies, apologize for their issuance, and provide instructions on how to handle the levies.

How many erroneous notices were generated in total at IRS' 10 service centers last processing season? How many erroneous notices were intercepted by the IRS before being mailed and how many erroneous notices were actually mailed?

MR. EGGER: There are currently no statistics maintained on the number of erroneous notices intercepted or actually mailed. Whenever a processing problem is identified where notices have been generated, the service centers are notified immediately not to mail the notices. The centers subsequently receive another tape of the corrected notices to be printed and reviewed.

We have taken positive steps to minimize erroneous notices being generated. Currently, we have a proposal to implement an automated Notice Review Processing System with emphasis on providing a better quality first notice to taxpayers. This system is scheduled to be tested in April, 1986 at the Atlanta Service Center.

MR. ROYBAL: Describe what steps are taken, if any, to check the accuracy of notices before they are mailed.

MR. EGGER: The current notice program is responsible for verifying the accuracy of notices and refunds issued to taxpayers. This is accomplished by comparing computer output (notices) to tax returns and adjustment documents. Those notices with the highest probability of error are reviewed 100% to ensure accuracy. The remaining notices are sample reviewed based upon a computerized selection process which selects a number of notices in ratio to the total notices generated. However, the centers are required to escalate the number of notices reviewed whenever a systemic problem has been identified.

MR. ROYBAL: In view of what happened last processing season, has IRS improved its notice review process? Please describe any improvements and provide any available management information to demonstrate the effectiveness of those improvements.

MR. EGGER: In our effort to improve the quality of notices issued to taxpayers we have taken the following actions:

- In May 1985, we developed a program to match payments delayed in processing with notices so that the notices reflected the most current information in-house.

- In July 1985, the sampling criteria was modified to select those notices with a high potential for error, rather than strictly a random sample as previously done.

- Beginning in January 1986 we combined notices whenever possible to reduce the number of notices being issued to a taxpayer.

- In addition, in January 1986, we began issuing two new notices to help explain to business taxpayers where their Federal Tax Deposits were applied. These notices were designed to address the continual problem of correct application of FICA and Income Tax Withheld by employers.

- As a future enhancement, we are implementing a Notice Review Processing System which will automate the notice review process with emphasis on providing a better quality first notice to the taxpayer. The system will allow for review of all notices where a subsequent action has occurred such as a remittance received. By accessing various input streams for pending transactions, the matching process will identify notices with the highest probability of errors and "flag" them for Notice Review. This system is scheduled to be tested at the Atlanta Service Center in April, 1986.

We are confident that these actions taken will assist the Notice Review process in identifying and correcting potentially erroneous notices. Although we do not have any management reports on the efforts undertaken, we are continuously in contact with the service centers on the effectiveness of these programs.

1985 COMPUTER TAPE PROCESSING PROBLEMS

MR. ROYBAL: Can IRS provide an accurate accounting of how many incidents of unprocessed computer tapes actually occurred during 1985 and at which Service Centers?

MR. EGGER: Yes, during 1985, the Service's Internal Audit function identified and reported eleven instances of unprocessed computer tapes in addition to the instance at the Kansas City Service Center provided by Mr. Finch, of the General Accounting Office, in his statement before the Subcommittee on Oversight on December 16, 1985. The eleven incidents reported by Internal Audit occurred at the Philadelphia (7), Brookhaven (2) and Fresno (2) Service Centers.

MR. ROYBAL: Please describe some of the specific controls mentioned during the Fiscal Year 1986 appropriations hearings that were to be installed to avoid the non-processing of computer tapes at the Service Centers.

MR. EGGER: Instructions and forms for run-to-run balancing to ensure the integrity of Service Center processing of tax returns through the mainline programs have been standardized and issued to all Service Centers as Document 7076, Data Integrity and Run-to-Run Balancing. Features of these procedures include: (1) program halts whenever a program detects a discrepancy during its internal balancing process; (2) manual balancing to ensure that all files (tape and disk) are properly processed from one run to the next; (3) a requirement that each run be balanced prior to release of output to any succeeding run; and, (4) specific instructions for documenting and controlling processing discrepancies and run imbalances to ensure proper resolution.

Instructions to prevent loss of control over tapes shipped from the Service Centers to the National Computer Center were issued on April 24, 1985, as a revision to Internal Revenue Manual 2800, Magnetic Media Management. New instructions were added to provide for documentation and monitoring of all requests from the National Computer Center for replacement of missing, damaged or unprocessable tapes.

MR. ROYBAL: In its December 16, 1985, testimony before the House Oversight Subcommittee of the Committee on Ways and Means, GAO discussed instances of computer tapes not being properly processed at service centers other than Philadelphia, namely Kansas City, Atlanta, and Cincinnati. Please explain how these incidents happened in view of the fact that strengthened controls over Service Center tape processing had supposedly been installed?

MR. EGGER: The incidents of tapes not being properly processed at the Kansas City, Atlanta and Cincinnati Service Centers occurred prior to or at approximately the same time that the tape processing problem was emerging at Philadelphia. The Kansas City processing error occurred on or about January 15, 1985, and was identified by Internal Audit on March 1,1985. The problems involving tapes from the Atlanta and Cincinnati Service Center occurred in the processing of tax year 1983 Information Returns Program documents during 1984. These problems were identified early in 1985 at the National Computer Center. The strengthened tape processing controls which were published on April 24, 1985, for nationwide implementation.

CORRESPONDENCE AND OTHER INVENTORIES

MR. ROYBAL: As of the end of October 1985, IRS' 10 service centers had a total of 1,334,279 cases in their adjustments/ correspondence inventories, compared to 968,950 cases at that time in 1984. One of IRS' two criteria for determining a manageable adjustments/correspondence inventory is that no more than 20 percent of the cases in the inventory remain unresolved for more than 45 days. Of the controlled cases in the inventory at the end of October 1985, however, 73 percent were more than 45 days old.

Unpostable inventories also increased. An unpostable condition is one that prevents a transaction that has been processed through the service center from posting to the taxpayer accounts (otherwise known as the master file) at IRS' National Computer Center. As of the end of October 1985, the 10 service centers had a total of 1,911,009 cases in their unpostable inventories, compared to 859,212 at that time in 1984.

How large were the correspondence and unpostable inventories at the end of 1985, and what is the current size of these inventories?

MR. EGGER: At the end of 1985, we had 1,145,113 correspondence cases and 1,576,966 unpostables. As of February 14, 1986, we had 1,108,719 correspondence cases and 1,585,666 unpostables.

MR. ROYBAL: What steps, if any, has taken to be more responsive to taxpayer' inquiries:

MR. EGGER: IRS took the following steps to be more responsive to taxpayers' inquires:

- Required that all correspondence be answered even if the action taken was exactly what the taxpayer requested. This procedure ensures that the taxpayer receives a written response, instead of a notice, explaining what was done to his/her account.

- Required an acknowledgement to all correspondence that can't be closed within 14 days. This procedure ensures that all correspondence receive a written acknowlegement within 14 days upon receipt in the service centers.

- Required taxpayer accounts be frozen to stop erroneous notices and refund offsets until the requested adjustment action can be completed.

- Increased the number of telephone lines available for tax assistance by 11% over 1985.

- Expanded circuitry for multifunctional equipment (MFE) systems which provide recorded tax & refund information to taxpayers. Nationwide toll-free service for MFE was also implemented for the first time in January, 1986.

- Ensured that taxpayers who call the service for help receive needed assistance with one phone call. Instead of asking taxpayers to call back if our referral account lines are busy, taxpayer assistors promptly reply to taxpayer's inquiry with a call back or written response.

MR. ROYBAL: In its testimony of December 16, 1985, before the House Subcommittee GAO stated:

> " One of the steps IRS took in an attempt to reduce its correspondence inventories to manageable levels was to increase several of its tolerances so as to reduce the number of taxpayer accounts needing adjustment and thus the volume of taxpayer correspondence".

How did IRS decide which tolerance to change and by what amount?

MR. EGGER: IRS implemented various procedure and tolerance changes in 1985 as a result of an Executive Conference held on July 29-31, 1985, and recommendations made by the Philadelphia Service Center Top Level Task Group. Tolerances selected for revision were those which would provide the greatest relief to our inventories with the least impact on voluntary compliance.

MR. ROYBAL: What was the actual dollar amount lost to the government as a result of those tolerance changes?

MR. EGGER: The actual dollar amount lost to the government as a result of these tolerance changes has not been determined. We have estimated loss revenue of $110 million as a result of [illegible] increase in tolerance for the Federal Tax Deposit Penalty. The [illegible]ining tolerances are being reviewed to determine what effect [illegible]y had on 1985 processing and to determine our needs for 1986.

MR. ROYBAL: Assuming a smooth 1986 processing year, will the increased tolerances be reduced to the pre-August 1985 levels?

MR. EGGER: We are in the process of reviewing the impact of these tolerance changes on our 1985 processing to determine if any changes should be made for 1986.

TELEPHONE CALLS

MR. ROYBAL: During the 18-week period from the beginning of May to early September 1985, IRS responded to about 600,000 more telephone calls than it did during the same period in 1984. The number of telephone calls that went unanswered also increased--from 13.6 million in 1984 to 47 million in 1985.

What has IRS done and what is it planning to do to prevent a recurrence of those telephone-related problems in 1986? Please provide some specifics, such as the number of additional phone lines and additional staff to handle calls.

MR. EGGER: For FY 1986, the number of telephone lines available for tax assistance has increased 11 percent from 3,036 circuits in 1985 to 3,372 circuits in 1986. Staffing has also been increased.

Multifunctional equipment (MFE)--providing recorded tax and refund information--was expanded from 21 systems with 25 lines each to 27 systems with 50 lines each. The additional systems were used to create 2 new sites (Pittsburgh and Richmond) and gave 4 existing sites (Chicago, Brooklyn, Houston, and Dallas) 100 line capacity. This increased the overall circuitry from 718 lines in FY 1985 to 1,504 lines in FY 1986. The expansion was operational in 26 sites in January and 1 site (Dallas) in February.

Also, nationwide toll-free service for MFE was implemented for the first time in January 1986. In 1985, taxpayers calling the MFE system from certain areas were charged for those calls.

A high performance Automatic Call Handler (ACH) upgrade has been developed for the Multifunctional Voice Response System now installed in 26 IRS locations. This improvement will reduce the transaction time per call, allowing additional calls to be answered; give rotary callers equal access to the telephone system; give taxpayers more information about their refunds; and provide us with more management information.

MR. ROYBAL: What level of calls is IRS expecting to receive this filing season and what level of calls is IRS staffed to handle?

MR. EGGER: The Service projects that it will receive about 28 million telephone calls for tax assistance during the filing period. We are staffed to handle approximately 22 million taxpayers through the telephone operation.

MR. ROYBAL: What are the chances that a taxpayer will reach IRS on his/her first call this filing season?

MR. EGGER: Our weekly survey of toll-free telephone calls indicates that about 75% of taxpayers that reach us for assistance are doing so on the first call.

In an effort to use our resources wisely, we continually adjust the number of telephone circuits we use for tax assistance and the number of employees answering calls from taxpayers. At times, the number of calls we receive exceeds the number of available circuits and telephone assistors; at those times taxpayers receive a busy signal. Because we have increased the number of incoming lines and employees this filing season, we expect that callers will reach us on the first call more often this year.

We have continued to encourage taxpayers to call us for assistance early in the day or at the end of the week. The demand for service is usually lower at these times, and taxpayers then have the best chance of reaching us with one call.

MR. ROYBAL: In 1985, according to some newspaper accounts, the volume of calls in Philadelphia almost toppled the entire phone network in the city of Philadelphia.

To what extent has IRS taken action to avoid a similar problem this year?

MR. EGGER: The Philadelphia answering site increased the number of telephone lines by 25.7 percent (70 in '85; 88 in '86) over last year's filing period. Also, since our returns processing system has implemented safeguards this year, there is less chance that we will experience the problems we faced in that area in 1985.

MR. ROYBAL: How flexible is IRS' phone service plan in Philadelphia should processing problems occur again; for example, to what extent can phone service be expanded?

MR. EGGER: The phone system in Philadelphia has the capacity to expand another 13.6 percent (12 lines) over its current number of lines. Additional local lines require about three to five days for installation; additional intrastate WATS lines require 10 to 25 work days for installation. Expedite service by the telephone companies involved could reduce these time frames. Contingency plans have been made to recruit personnel from other functions to staff the additional lines.

OVERTIME USAGE

MR. ROYBAL: Overtime usage for the period January 1 through September 30 at the ten service centers increased from 606 staff-years in 1984 to 869 staff-years in 1985, an increase of 43.3 percent. What were the actual overtime costs in fiscal year 1985? What overtime costs does IRS anticipate at the service centers in 1986?

MR. EGGER: The actual service center overtime costs for fiscal year 1985 were 963 staff-years and $22,768,372. IRS anticipates overtime in the service centers in FY 1986 will total 973 staff-years and $24,401,000. These figures are for the budget activity covering returns processing.

MR. ROYBAL: What efforts is IRS taking to reduce the extent of overtime?

MR. EGGER: Our FY 1986 Financial Plan provides approximately the same level of overtime as used in FY 1985, however, the focus or use of the overtime will differ in FY 1986. Last year the Service expended much of the overtime in the initial processing of the tax returns and correcting the errors detected in the initial processing. For FY 1986, as I have reported earlier, we have carried forward in this year high inventories in some non-pipeline areas, i.e., adjustments, correspondence and unpostables. To work these inventories down to acceptable levels we have selected to use overtime, thereby utilizing the existing skills in the centers, avoiding hiring and training new personnel. We believe that since the high non-pipeline inventories will only be of a short duration the approach is the most cost effective.

In the pipeline areas the centers have increased the numbers of personnel in an attempt to minimize overtime usage. Staffing (personnel employed) in FY 1986 should increase by approximately 4,600 over FY 1985.

IMPACT OF GRAMM-RUDMAN-HOLLINGS REDUCTION

MR. ROYBAL: Within each of IRS' four appropriation accounts, which programs, projects, and activities will IRS reduce to meet the Fiscal Year 1986 reduction mandated by the Gramm-Rudman-Hollings legislation?

MR. EGGER: The impact of the Gramm-Rudman-Hollings reduction will fall heavily on administrative and support functions. Within each of the IRS operating appropriations, the following actions are now being taken: restrict hiring; reduce administrative travel, overtime and discretionary training; freeze procurement of supplies, office equipment and furniture; suspend office alterations and use of outside contractors (management contracts, studies, tests, etc.); and cut back, where possible, on ADP and systems modernization expenditures.

The Service is not applying reductions against filing season operations (processing tax returns, issuing refunds, providing taxpayer service) nor against direct revenue-producing programs (examining tax returns, collecting unpaid taxes, securing delinquent returns, matching information returns). Supplemental funds, totaling 6,950 positions and $340 million, are being requested for these purposes this year. Failure to approve this request will force the Service to cut back dramatically in these critical functions.

MR. ROYBAL: Encouraging voluntary compliance with the tax laws requires the efficient operation of several activities, such as taxpayer assistance, tax returns processing, examination of tax returns, and collection of taxes due. Considering that all of these, as well as other functions, are essential for IRS to work effectively, how did IRS decide which programs, activities and projects within each budget account would be reduced to meet the requirements of the Gramm-Rudman-Hollings legislation?

MR. EGGER: To ensure the Service's ability to encourage voluntary compliance with the tax laws, we have requested supplemental funding totaling 6,950 positions and $340 million in FY 1986 to restore effectiveness to our tax processing system, improve taxpayer service, strengthen tax enforcement and meet unanticipated mandatory costs.

The Gramm-Rudman-Hollings reductions in FY 1986 were not taken against tax filing operations or direct revenue-producing programs. Instead, the reductions are being applied against administrative and support functions. The Service's ability to encourage voluntary compliance should not be adversely affected -- provided the program supplemental is approved.

MR ROYBAL: How much estimated tax revenue will be lost as a result of the Gramm-Rudman-Hollings legislation in Fiscal Year 1986? In future years?

MR EGGER: Since the Gramm-Rudman-Hollings reductions for FY 1986 are not being applied against our direct revenue-producing programs, the amount of revenue forecast for the current year should be collected, provided the program supplemental of $340 million is approved timely. Since the size of any future reductions required under Gramm-Rudman-Hollings is unknown, we cannot estimate the direct revenue loss which would occur. However, the Service collects, on the average, between $9 and $10 for each dollar spent on tax enforcement.

MR. ROYBAL: How is IRS preparing to meet the reductions that may be required in Fiscal Year 1987 and beyond under Gramm-Rudman?

MR. EGGER: The President's budget request for FY 1987 meets the deficit target required under Gramm-Rudman-Hollings. Under the President's budget proposal, resources for tax administration are being increased, not reduced, in recognition of IRS revenue-producing capabilities.

SUFFICIENCY OF BUDGET REQUEST

MR. ROYBAL: In view of the problems that the Internal Revenue Service had in the 1985 filing season, are the budget requests for the supplemental for Fiscal Year 1986 and for Fiscal Year 1987 sufficient? Do they take into account the impact of Gramm-Rudman?

MR. EGGER: The Internal Revenue Service's request for supplemental funding in FY 1986 provides the resources necessary to correct the problems incurred during the 1985 filing season, restore the effectiveness of our tax processing and improve service to the public. The FY 1987 budget request, when compared to level currently authorized under the Continuing Resolution, reflects an increase of 8,300 positions and $455 million. The additional resources will provide levels sufficient to meet workload demands in tax processing, taxpayer service and other programs. Moreover, it will allow IRS to undertake a major revenue initiative in examining tax returns. The budget request does take into account the impact of Gramm-Rudman-Hollings. In FY 1986, IRS is reducing spending by $157 million. For FY 1987, the budget as proposed by the President meets the Gramm-Rudman-Hollings deficit target.

MR. ROYBAL: Is the amount requested for Fiscal Year 1987 enough to fund the resources needed to address what Mr. Rodgers has said are the Treasury Department's two primary concerns this year: restoring public confidence in the IRS and strengthening compliance?

MR. EGGER: Our budget request for FY 1987 provides the resources needed to address the Department's concerns. To restore public confidence in the IRS, the budget request provides an increase of 8,300 positions and $455 million over the Continuing Resolution. These additional positions will allow the service centers to: (1) set realistic production rates; (2) compensate for the decline in recall and retention of seasonal employees; and (3) improve quality of operations. Also, the Service will be able to keep pace with the increased demand of taxpayers for assistance and resolving their concerns on the status of the their tax accounts.

To strengthen compliance, our budget request provides resources to: (1) add 2,500 positions as part of the Administration's revenue initiative, which will produce over $10 billion in revenue between now and 1991; (2) expand document matching; (3) expedite resolution of tax shelter cases; and (4) continue implementation of ADP modernization efforts.

MR. ROYBAL: Assuming that Congress appropriates the requested supplemental amount for 1986, will the total amount available be enough to fund the resources needed to address what Mr. Egger testified last year were the five major goals of the Service (including maintaining essential levels of tax administration and continuing efforts to modernize its automated data processing systems)?

MR. EGGER: In my testimony last year, I stated that the five major goals of the Service were: (1) to maintain essential levels of tax administration; (2) to continue efforts to modernize ADP systems; (3) to implement the Deficit Reduction Act of 1984; (4) to begin hiring against the revenue initiative; and (5) to achieve necessary reductions and meet uncontrollable cost and workload increases.

The Service's supplemental funding request for FY 1986 totals 6,950 positions and $340 million. This supplemental request, if approved, will provide the resources necessary to ensure that each of the Service's major goals are achieved as follows:

	Positions	Dollars (millions)
Maintain essential levels of tax administration	6,507	$ 251.5
Modernize ADP systems		33.5
Implement Deficit Reduction Act of 1984	111	4.1
Revenue Initiative advance hiring	332	14.5
Uncontrollable costs		36.4
Total	6,950	$ 340.0

IRS CAPABILITY TO PROJECT REVENUES AND COSTS

MR. ROYBAL: For several years, GAO has reported that IRS does not have the appropriate information systems to measure the additional revenues that would result from adding resources to each program in IRS. What is IRS doing to improve its information systems in this regard?

MR. EGGER: The Service has steadily progressed in its efforts to accurately predict the effects that program changes have on enforcement revenues. We have now in place a working model which calculates all costs and benefits and flows the revenues produced on a cash basis for each fiscal year. Existing subsystems feed this model. The examination program has used a marginal yield model to predict examination yields since 1975. The collection and document matching programs have also developed models that will predict the effects that alternative resource levels have on revenue yields and yield to cost rates. These models are being tested and should be available for preparation and analysis of the FY 1988 budget.

In addition, the current working model is being expanded. When completed later this year, the model will simulate the marginal yield curves that are contained in the examination, collection and document matching functional models. It will allow the Service to quickly assess the impact that resource fluctuations have on enforcement revenues. The model will be able to provide maximized revenue strategies by allocating incremental resources to enforcement programs based on comparative marginal yields.

MR. ROYBAL: Does IRS have systems in place to measure the additional revenues that would result from adding resources or to assess the impact of reducing resources for each of its programs, activities or projects? If not, how is IRS assessing the impact of reducing resources to meet the Gramm-Rudman targets?

MR. EGGER: As I have already stated, IRS has, in place, a model which measures the costs and benefits of resource levels for tax enforcement. We are continually refining and improving this model and will use it to calculate the revenue impact of adjustments made to existing resource levels.

REVENUE YIELD: GRAMM-RUDMAN-HOLLINGS

MR. ROYBAL: Considering the lack of information on marginal yields, how did IRS assess the impact of reducing resources from each of its programs, activities or projects to meet the Gramm-Rudman-Hollings legislation targets?

MR. EGGER: As you know, the Service is requesting a supplemental that would ensure that the revenue forecast for FY 1986 is met. If this supplemental is approved, there would be no loss in enforcement revenue. However, if the supplemental is not approved, the Service would be forced to drastically reduce staffing in revenue-producing programs (examining tax returns, collecting unpaid taxes, securing delinquent returns and matching information returns) with a loss of some one billion dollars in revenue collected in FY 1986. These staff reductions would require furlough of experienced personnel on an across-the-board basis for varying amounts of time. As a result, all work in progress would cease, high yielding cases notwithstanding. Therefore, average yield per cost ratios for the enforcement revenue programs, which are readily available, were used to assess the impact of any reductions in FY 1986.

IRS REVENUE YIELD

MR. ROYBAL: On average, several IRS programs yield at least $10 in revenues for each $1 of resources invested. Although all of the information may not be available to measure the amount that each marginal dollar spent yielded, can IRS estimate how much resources would be needed to reach the average return of $2 of revenue for each $1 spent?

MR. EGGER: We could provide an estimate of the amount of additional resources that would be required before the marginal yield rates for our enforcement programs reached an average return of $2 for each $1 spent. However, the magnitude of the staffing increases would be so large that we could not feasibly recruit, train, house, and equip such large numbers of new employees within the span of several years. For example, the average yield of our examination program, including follow-up and support approaches $10 to 1. The Service is proposing to increase examination staffing by 7,500 average positions over a three year period. The yield to cost ratio for this proposal is $8 to 1. To reduce the yield to $2 for each dollar spent in examination could well require a doubling or tripling of the current resources (32,484 positions).

MR. ROYBAL: Where would these additional resources be used?

MR. EGGER: Additional enforcement program resources could be used to collect additional unpaid taxes by reducing outstanding inventories of delinquent accounts, secure additional tax returns from taxpayers who have not filed, and examine employment tax returns to verify that Social Security, Medicare and Federal Unemployment Insurance taxes have been properly paid. Resources could also be used to hire more tax auditors to audit additional individual income tax returns. The proposed revenue initiative which increases examination staffing by 2,500 average positions a year for three years, a total increase of 7,500 average positions, could be extended by hiring an additional 5,000 average positions over the two year period, FY 1990-1991, a total increase in examination staffing of 12,500 average positions. Resources could also be applied to continue development of enforcement program automation projects such as the Automated Examination System, the Integrated Collection System, and the Automated Underreporter System. These systems will improve the productivity of our enforcement personnel and will increase enforcement revenues.

PRODUCTIVITY

MR. ROYBAL: Productivity at the ten service centers declined 18.3 percentage points during the first six months of 1985 compared to the first six months of 1984.

What is IRS doing to improve productivity at its service centers without sacrificing quality?

Can IRS realistically improve productivity at its service centers without sacrificing quality?

MR. EGGER: Increased and continuing emphasis on quality can only help to improve productivity at the service centers in the long run. High productivity has always been the way of life at IRS, however, in light of the Service's recent problems, we are concentrating on maintaining a quality-conscious environment -- in other words, doing it right the first time. The elimination of duplicate processing will only improve service center production. Quality will not be sacrificed at the expense of high productivity.

Through the use of enhanced quality improvement reports and a comprehensive analysis of all the data we have available to us, the identification of potential problems can be detected early and subsequently resolved early. Specifically, the Program Analysis System (PAS) was developed as a methodology for project review and for identifying systemic deficiencies and providing a basis for measuring a program's effectiveness. PAS locates taxpayers' and processing errors and the reason(s) for their occurrence. Solutions are relatively easy to identify once the specifics of the errors are known.

MR. ROYBAL: Are quality standards established for each service center processing activity that has a production standard?

MR. EGGER: Each service center establishes its own Acceptable Quality Standard (AQS) for major programs, which are monitored by the Service Centers' Quality Assurance Branches. The Quality Standard is determined by, but not limited to, the following criteria:

a. comparable prior history information;
b. known systemic/procedural changes;
c. impact on taxpayer relations;
d. impact to other service center operations; or
e. achievable/desirable quality standards.

National Office has developed Quality Indicators which will provide the service centers with a vehicle for comparing the quality of the products produced to a national quality range.

UNIDENTIFIED REMITTANCES

MR. ROYBAL: In 1985, service centers received unidentified remittances. Unidentified remittances are payments, which for some reason or another can not be identified with a specific taxpayer's account. Once a remittance becomes a year old, IRS includes it as an excess collection.

What was the national volume and dollar total of excess collections at December 31, 1985?

MR. EGGER: We do not track the volume of excess collections. We do, however, track the dollar amount which was $158,197,828.97 on December 31, 1985.

MR. ROYBAL: What other items, if any, are included in excess collections, and what were their volume and dollar total at December 31, 1985?

MR. EGGER: In addition to the unidentified payments mentioned in your introductory remarks, excess collections contain a small amount of tellers' overages and unapplied credits cleared from the master files when the statute of limitations expires. As an example of the latter item, a business taxpayer may have made payments toward an employment tax return which was never filed. IRS makes attempts to contact the taxpayer. If these are unsuccessful, and the statute expires, an excess collection results.

Volume and dollar information about the various types of items in excess collections have not been captured.

MR. ROYBAL: What measures are taken to resolve taxpayer payments identified as excess collections?

MR. EGGER: IRS makes repeated efforts to correctly apply taxpayer payments during the year before placing them into excess collections. These measures include researching records and attempting to reach the taxpayer by mail and telephone. Once an amount is moved to excess collections, the supporting files are available for reference, should the taxpayer subsequently inquire about the payment.

LOST RETURNS

MR. ROYBAL: In 1985 there were numerous allegations that IRS lost tax returns and payments. IRS, on the other hand, has stated that no returns were lost or destroyed, although IRS has recognized that it temporarily could not find some returns.

Does IRS expect to receive more certified or registered mail this year as a result of last year's processing problems? Would the increased use of certified/registered mail cause IRS to expend additional resources and/or result in extended processing?

MR. EGGER: IRS does expect to receive more certified or registered mail this year as a result of last year's processing problems. The U.S. Postal Service, CPA's and return preparers encourage the mailing of returns in this manner, and we expect the volumes received to increase in 1986. This increase may cause IRS to expend additional resources. However, since this is an automated process the increased cost and time should be minimal.

MR. ROYBAL: Has IRS established a system to acknowledge that a taxpayer's return has been received at a service center?

MR. EGGER: No, the Service does not have a system which can inform taxpayers whether or not a service center has received their returns. However, this year we are implementing a service which will give information to taxpayers who have timely filed refund returns. As of March 17, a special Fact-of-Filing (FOF) system will enable our assistors to tell taxpayers when their returns entered the processing system (usually within 3 weeks of receipt by the service center) and when to expect their refunds. The FOF system is a response to one of the Service's processing problems in 1985. Last year, we asked many taxpayers to file duplicate returns because our records did not show that the original entered the processing system within the usual time frame.

COMPUTER TECHNOLOGY AND PROCUREMENT

MR. ROYBAL: What is the status of IRS' automated data processing systems, and what has its total ADP budget been over the last 5 years and for fiscal year 1987?

MR. EGGER: Concerning the ADP budget, the Internal Revenue Service has used the following amounts (in millions) for acquisition of ADP and Systems Modernization:

- FY 1982 $ 57.8
- Fy 1983 $ 102.9
- FY 1984 $ 123.2
- FY 1985 $ 171.1
- FY 1986 $ 211.2
- FY 1987 $ 251.3

The above costs include lease, purchase and maintenance of computer and peripheral equipment, ADP supplies, and data processing services. In addition, the Service uses staff to operate computers, house the computer facilities, and provide data and other telecommunications. In total, $634.2 million is budgeted in FY 1987 for these expenses.

MR. ROYBAL: What will be the total cost of IRS' long range plans to upgrade its ADP systems, as reflected in its May 1984 strategic plan of 14 initiatives? What is the timetable for completion?

MR. EGGER: The fourteen Information Management Strategies (IMS) contained in the Internal Revenue Service Strategic Plan (5-84) are designed to implement a new approach for the Service, i.e., Information Management. The initiatives do not represent an operational plan, but rather a directional one, which provides a framework within which the necessary operational and implementation plans will be developed. Therefore, the costs of these strategic initiatives generally do not reflect the cost of upgrading the Service's ADP systems.

Two exceptions are the establishment of a telecommunications network and the redesign of the tax processing system. These are dealt with in the Service's Information Systems Plan which is under development.

We expect the costs of implementing the remaining 12 strategic initiatives to be relatively minimal since, in most cases, implementation consists of administrative decisions and actions. Also, many of these initiatives are directed to establishing new organizational capabilities and would have no finite completion date. We do expect that the initial implementing actions will be completed by the end of FY 1987, and that in some cases, follow up action will be needed.

MR. ROYBAL: Does IRS have an overall plan that integrates long range ADP and communications needs?

MR. EGGER: The Service does have a long range plan which integrates both ADP and communications needs which is called the Information Systems Plan (ISP). This plan establishes overall Service objectives and strategies for information systems and serves as the basis for development of the ADP portion of the Service's budget.

INTEGRATED DATA RETRIEVAL SYSTEM REPLACEMENT PLANS

MR. ROYBAL: IRS' Integrated Data Retrieval System (IDRS) provides instantaneous visual access to taxpayer accounts. IDRS supports crucial IRS functions, such as responding to taxpayer inquiries, processing certain types of refunds, making adjustments to taxpayer accounts, examining taxpayer returns, collecting taxes, and investigating tax crimes. IDRS consists of Sperry Univac 1100/84 computers and associated peripheral tape and disk subsystems, Sperry and Control Data Corporation terminals, and a Sperry Univac 9040 Data Communications Processing System.

To meet the demands of a growing workload, IRS is using a two phase procurement to upgrade the entire IDRS system. Phase I, costing about $17 million, occurred in 1984-1985 when about 4,000 Sperry terminals were added to the system. Phase II, which is expected to exceed $100 million, will include replacing about 4,100 old Control Data terminals and providing 900 expansion terminals with an option to add up to about 5,000 more. Phase II also involves replacing and upgrading the 9040 communications processor. The communications processor performs communications tasks, such as routing messages between the terminals and the Univac 1100 mainframe computers. It is a key component because all on-line inquiries must pass through it to access data bases on IRS' mainframe computers. There is only one communications processor at each of IRS' 10 service centers.

A 1984 IRS capacity study concluded that the workload in the larger service centers could exceed the 9040's capacity during peak hours as early as December 1985. If this occurs, it would hamper IRS' taxpayer service, collection, error resolution and other activities at these centers.

IRS awarded the IDRS Phase II contract in October 1985 and planned to install upgraded communications processors at 2 service centers in 1986. In other words, only 2 of the 10 service centers would have upgraded processors for the 1987 tax filing season. The remaining 8 service centers would have them installed in 1987, after the tax filing season. However, a protest of the awarded contract was filed and recently upheld, thus clouding the future of this acquisition.

The Phase II procurement is also to give IRS a major additional communications capability, called the Communications Replacement System, to interface IDRS with several other IRS systems. The Request for Proposals requires the new communications processors to be able to interface IDRS not only with the Sperry Univac mainframes; but also with the Distributed Input System, the Automated Collection System, and the Zilog minicomputers.

When does IRS anticipate installation of the Phase II terminals? What locations will receive these terminals, and for what applications will they be used?

MR. EGGER: Under the current project schedule, the Communications Replacement System (CRS) test system will be installed and ready for use in the National Computer Center, Martinsburg, West Virginia in July 1986. The first Service Center, currently identified as Atlanta, will have its old terminals and communication processor replaced in November 1986. No installations will be made during the January through April 1987 filing season. The last Service Center, as yet to be determined, will be installed in December 1987. An action plan is presently being developed to finalize the order of Service Center installations. The volume of IDRS transactions in a Service Center is the primary factor affecting its installation order.

The Sperry DCPS and an average of 418 CDC terminals will be replaced in each Service Center network. Approximately 60% of the CDC terminals are physically located in the Service Centers. The remaining CDC terminals are located in District Offices and Posts of Duty. A detailed list of terminal quantities and locations was included in the solicitation; however, a number of office relocations has since occurred. We are currently compiling a list of changes to the initial delivery schedule.

The new terminals will be used for the same activities as the CDC terminals which they are replacing. Most of this activity relates to taxpayer account information needed by the Service Centers and District Examination, Collection, Criminal Investigation and Internal Audit functions.

MR. ROYBAL: Will you briefly review the two phase procurement process that IRS is using to upgrade its Integrated Data Retrieval System (IDRS), including the Communications Replacement System (CRS)?

MR. EGGER: On March 21, 1983, The General Service Administration (GSA) issued a Delegation of Procurement Authority (DPA) to the IRS. In December 1983, a contract for Phase I was awarded to the Sperry Corporation for 4,000 terminals to augment the existing Control Data Corporation (CDC) terminals. An upgrade of the Sperry Data Communications Processing System (DCPS) 90/30 to a DCPS 90/40 was also procured at the same time through a separate procurement action. This Phase I requirement was necessary to meet short term workload growth. On August 3, 1984, the Service issued a Request for Proposal for Phase II. The Communications Replacement System (CRS) is included in the IDRS Phase II procurement which will replace the present Sperry DCPS 90/40 and 4,100 old Control Data Corporation (CDC) terminals and printers. The initial delivery of terminals will include 900 terminals for expansion, bringing the total to 5,000 terminals nationwide. The procurement also allows for the optional acquisition of 5,000 additional terminals with their associated peripherals and three additional communications processors. The communications processors were required to provide a much higher level of availability (99.5%) than the present Sperry 90/40 systems. Redundant features are also required in the procurement to provide backup processing capability.

MR. ROYBAL: How is the development and procurement of Phase II of the Integrated Data Retrieval System proceding?

MR. EGGER: Contract for the IDRS Terminal Replacement, Phase II was awarded to Sysorex Information Systems on February 11, 1986. A delivery order for all FY 1986 hardware, software and technical support was issued on February 13, 1986. The test system will be installed and ready for use at the National Computer Center in Martinsburg, West Virginia in July 1986. The equipment will be installed in the first Service Center, under the current schedule, in November 1986 and in the last in December 1987.

MR. ROYBAL: What is the projected cost for the system and what is the timetable for completion, installation, and full implementation in all service centers?

MR. EGGER: The projected cost for the system with all options exercised is $161 million including in-house costs which represent costs to the government associated with site preparation,space rental charges, power, and computer operations.

The timetable for installation and implementation is reflected in the following chart.

Projected Schedule for IDRS Phase II

Milestone	Date
National Computer Center Installation	7/86
First Service Center Installation	11/86
Second Service Center Installation	5/87
Third Service Center Installation	5/87
Fourth Service Center Installation	6/87
Fifth Service Center Installation	7/87
Sixth Service Center Installation	8/87
Seventh Service Center Installation	9/87
Eighth Service Center Installation	10/87
Ninth Service Center Installation	11/87
Tenth Service Center Installation	12/87

MR. ROYBAL: When does IRS estimate the Communications Replacement System will be installed?

MR. EGGER: The CRS test system will be installed at the National Computer Center in Martinsburg, West Virginia in July 1986. The first Service Center, now scheduled to be Atlanta, will be installed in November 1986. The remaining Service Centers will be installed between May 1987 and December 1987. No installations will occur during the January through April 1987 filing season to avoid Service Center disruptions. We are exploring the possibility of installing the four high volume Service Center systems prior to January 1987.

MR. ROYBAL: If IRS encounters delays in Phase II implementation, how will it effect IDRS and the systems it supports? What contingency plans does IRS have if delays occur?

MR. EGGER: The effect of delays in the Phase II implementation depends upon the amount of delay. The most immediate impact of delays would be: (1) increasing failures and repair costs of old Control Data Corporation terminals; (2) downtime of the existing Sperry Data Communications Processing System (DCPS) due to age and lack of redundant components; (3) inability to increase the number of terminals connected to the Service Centers to handle workload growth or new applications.

If significant delays are encountered, we are ready to address the reliability of the old Control Data Corporation (CDC) terminals by either: (1) requesting another Delegation of Procurement Authority from GSA for a sole source acquisition of replacement terminals from Sperry; (2) retiring failed CDC terminals from inventory and using their good parts to keep other old CDC terminals functioning. This plan would also address the possibility of replacing the retired CDC terminals through a sole source acquisition to Sperry.

Our contingency planning is also addressing the problem of the aging and capacity limited Sperry 90/40 Data Communications Processing System (DCPS). In order to address the lack of system redundancy in case of failure, we are investigating the possibility of purchasing additional Sperry DCPS's for all, or a limited number, of Service Centers. In that area we are also investigating the possibility of simultaneous operation of two DCPS's during real time to share the transaction processing load and allow more terminal traffic with adequate response time.

MR. ROYBAL: Does IRS have a long range plan to ensure sufficient capability to access tax account information? How does IRS assess its needs?

MR. EGGER: The growth rate in IDRS terminal transactions was analyzed and included in the Phase II solicitation. Sufficient growth estimates were specified through 1991 based on historical data. The solicitation specifications required that bidders propose optional upgrades to increase system capacity in the event that transaction volumes grow faster than our estimates. Proposals which included higher capacity optional upgrades without recompetition were scored more highly.

MR. ROYBAL: Is IRS measuring utilization of the communications processors? If so, how much additional workload can the processors handle? If not, how will IRS know whether they will meet its needs until the Communications Replacement System is implemented?

MR. EGGER: There are no tools on the 9040 Data Communications Processing System (DCPS) to routinely measure system or component utilization, as is common on larger, more sophisticated systems. We have, however, established precise performance (resource utilization) data by using a hardware monitor during live, production workloads. These performance data were refined and input to an analytical modeling program. When correlated with workload data, which is gathered routinely, the model forms the basis for capacity assessments. Modeling studies in 1983 and 1984 projected probable capacity saturation of the DCPS processor in 1985.

Although actual capacity varies according to workload (transaction) characteristics, peak workload at the larger Service Centers in 1985 effectively saturated the DCPS. Our projections show that additional workload during peak periods of the day will cause degraded response time to terminal operators. However, since there is sufficient total capacity to accomplish projected work, leveling (reducing demand peaks) can alleviate peak period degradation. One means of accomplishing leveling, increasing real time availability to users from approximately 12 hours to 16 or more hours per day, is in place for 1986. With workload leveling and installation of the CRS at the higher volume Service Centers prior to peak 1987 IDRS processing, there will be adequate capacity to accommodate projected workload.

MR. ROYBAL: To what degree does the 90/40 Data Communications Processing System have maintenance problems? We understand the 90/40 at a service center was recently disabled, but that a replacement was brought in within 30 hours. What measures does IRS plan to take if the 90/40 at two or more service centers are disabled at the same time?

MR. EGGER: The 90/30 communication processing systems were installed in 1979, upgraded to a 90/40 in 1983 and are beginning to experience hardware failures. We are in the process of compiling accurate statistics, but do not have those figures at present, since each Service Center maintains its own maintenance records.

Sperry has identified two spare 90/40 systems as replacements in the event of a failure. One of those systems is on-site in the Atlanta Service Center. The other is in a non-IRS site in Minneapolis, Minnesota. Both systems are available for shipment to any Service Center on an emergency basis. The Communication Replacement System in the Phase II contract with Sysorex offers a redundant processor system at each Service Center. Switchover time between a failed processor and the standby will take approximately 6 minutes.

MR. ROYBAL: Does IRS have a communications plan which shows the goals to be achieved with the interface capabilities to be provided by IDRS Phase II? Has IRS studied how this will meet user needs? When does IRS estimate this capability will be used?

MR. EGGER: The feasibility study upon which the IDRS Terminal Replacement project is based was completed in December 1982. It included the user needs and interface capabilities which were known or estimated at the time. The Request for Proposals evolved over the period March 1983 to August 1984. Many IRS functions as well as the computer industry reviewed the RFP and provided input. The contract was finally awarded February 1986 after protest of the initial award in October 1985. We currently have several efforts underway analyzing the evolution of IDRS applications and needs since the original feasibility study in order to predict future needs.

The specific interface needs which were incorporated into the RFP were related to the Automated Collection System (ACS), the Distributed Input System (DIS), Zilog minicomputers and IBM 308X series computers.

At present, separate IDRS terminals are needed by ACS to gain access to the IDRS system, this reduces the productivity of the ACS personnel. The interface requirement was included in the RFP in order to allow ACS terminals to gain access to IDRS without the need for separate terminals.

The DIS interface was included with a similar intent, to permit switching the DIS terminals between the IDRS and the DIS host computer systems electronically for a productivity improvement and the avoidance of additional terminal hardware costs.

The Zilog interface was included to permit basic compatibility between the many Zilog minicomputers in IRS and the new CRS for information interchange. Our field offices have tailored local Zilog applications to improve productivity for individual tax administration functions. Many of these functions require information from IDRS.

The IBM 308X series computer interface was included to insure compatibility should the present Sperry 1100/8X host system be replaced with an IBM compatible system. Since many large mainframe systems offer IBM compatibility, this was the most feasible interface requirement for this possibility. It would be impossible to require interface compatibility with every type of large computer mainframe in the industry.

For planning purposes, the acquisition of the interfaces was estimated for the 13th (ACS), 25th (DIS) and 37th (Zilog and IBM) months after contract award. Actual interface installation dates are currently under discussion.

MR. ROYBAL: Will the changes being made to the IDRS system increase the demand on IRS' main Sperry Univac computer? If so what effect will this demand have on other critical workloads on these computers?

MR. EGGER: No, the Sperry Univac system (SCRS) will not experience increased workload attributable to IDRS (CRS and terminal replacement) system changes.

MR. ROYBAL: What new applications are currently planned for the IDRS/CRS system? Was this system size based on the current IDRS workload or were the planned new applications also considered?

MR. EGGER: Additional Taxpayer Service terminals and the Automated Underreporter Program are the primary applications planned for the IDRS system which will require expansion of the network. The system size in the RFP was based upon transaction volume growth estimates through 1991 and a network of approximately 1400 terminals per Service Center. At present there are approximately 810 terminals per Service Center. The growth estimates included the terminal traffic which would be generated by the addition of up to 5000 IDRS terminals to the present 8225 nationwide. The additional Taxpayer Service and Underreporter terminals would be acquired from the optional 5000 terminals available under the Sysorex contract.

MR. ROYBAL: To what extent does old software need conversion or new software need to be written to complete the IDRS/CRS replacement? When would this be completed?

MR. EGGER: The contract requires that all deliverable software be newly developed because of additional program requirements and redesign of the existing programs for efficiency. All software is required under the terms of the contract to be delivered in July 1986, five months after contract award.

MR. ROYBAL: Does IRS measure availability of the IDRS system and of major applications on the system? If so, do they indicate whether there is any availability problem?

MR. EGGER: Yes, the IDRS availability is tracked via daily input to the National Office by the Service Centers into the Computer Branch Accomplishments Reporting System (CBAR). There also is daily tracking of the Error Resolution System, Generalized Unpostable Framework, Generalized Mainline Framework, as well as the Microfilm Research System. Daily and weekly batch processing of the Taxpayer Information File, the largest and most active portion of the IDRS data base, is tracked through CBAR, as well as

general online response time information. By daily and weekly tracking, the awareness of an availability problem is detected and addressed at an early stage. Status information and the results of our analysis are regularly made available to National Office executives as well as the Regions and Service Centers.

MR. ROYBAL: In its review of IRS' service centers, the General Accounting Office (GAO) found specific functions, such as Collection, Criminal Investigation, Notice and Refund Review, lacking a sufficient number of IDRS terminals available in the function's specific organizational area. Thus, the staff in one function had to use terminals, when available, in other functional areas of the service center.

Do the service centers now have sufficient IDRS terminals to access file information on taxpayers' accounts?

MR. EGGER: We are aware of a shortage of terminals in the Taxpayer Service function. In an effort to meet this need, we recently obtained 125 Sperry terminals for Taxpayer Service and we plan to allocate a significant number of the expansion terminals under the Sysorex contract to this function. We also plan to compile requests for additional terminals from other functional areas within the next six months. We will prioritize those requests in accordance with available funding and justification and, as resources are available, acquire additional terminals from the 5000 optional terminals available under the Sysorex contract.

INTEGRATED DATA RETRIEVAL SYSTEM REPLACEMENT SYSTEM

MR. ROYBAL: An October 1, 1985 telecommunications study within IRS' Support and Services office noted that the communications systems connecting thousands of remote IDRS terminals to IRS service centers would need to be greatly enhanced by 1990 to meet growing workload demands. Since long term solutions would be costly and probably have to go through a lengthy procurement process, interim as well as long term solutions were proposed. To what extent has IRS addressed this potential problem?

MR. EGGER: The IRS is presently studying three alternatives to meet the long term problem of increased workload on the IDRS network:

1. Redesigning the existing network with fewer terminals on a given line working at a higher speed to maintain the current desired response times of this critical tax processing application. This solution would involve increasing the number of data communications lines and replacing the existing data communications equipment (modems, multiplexers, etc.) with equipment capable of operating at higher speeds.

2. Conducting a test of newly available satellite technology that would be capable of operating at higher speeds but at lower cost than the current terrestrial facilities.

3. Conducting a test using packet switched technology.

MR. ROYBAL: Under what procurement would a solution be addressed?

MR. EGGER: Solutions 1 and 2 would require full, competitive procurement actions once authority is received from the Department and GSA. Solution 3 can be accomodated under the existing contract for the Treasury Consolidated Data Network which is under the control of the U.S. Customs Service as the Executive Agent for data transmission within the Department.

CAPACITY ENHANCEMENT FOR THE PROCESSING SYSTEM (CEPS)

MR. ROYBAL: In 1985, IRS implemented the Service Center Replacement System (SCRS). Under SCRS, Univac 1100 series computers were installed at IRS' ten service centers, which handle most tax return processing functions. It also involved the conversion of about 1,500 computer programs from assembler language to COBOL. At the start of the 1985 tax filing season, a combination of insufficient computer capacity and inefficient computer software associated with SCRS adversely affected the Service centers' ability to process tax returns and service taxpayers.

Although IRS originally intended for SCRS to provide sufficient capacity until the late 1989's, we understand that IRS is now planning a new acquisition strategy known as the Capacity Enhancement for the Processing System (CEPS). This initiative would not only involve replacing the existing Sperry hardware provided under SCRS, but also would involve changing the existing software programs to be compatible with the new equipment. Under this procurement the winning vendor will be responsible for converting the existing IRS software to run on the proposed equipment. Therefore, careful planning is needed to prevent disruptions to IRS operations with the CEPS conversion.

What, more specifically, is the nature of CEPS and what is its purpose?

MR. EGGER: The Capacity Enhancement for the Processing System (CEPS) is a replacement computer system for the SCRS computer systems presently installed in the ten (10) regional IRS Service Centers located throughout the United States to process tax returns, and the National Computer Center (NCC) in Martinsburg, West Virginia which is also used as the program development system. CEPS is required because SCRS will not provide the computer capacity required to process tax returns beyond 1989.

No redesign is planned as part of the CEPS conversion and installation. All SCRS applications programs to be processed on CEPS shall be converted by the winning contractor. The contractor may modify input/output routines (data accesses), but shall not make functional, logical or computational changes beyond that. Unlike the recent conversion that IRS experienced with SCRS, which was actually an extensive rewrite of assembly language programs to the high level language COBOL, the contract calls for conversion from Sperry 74 COBOL to the 74 COBOL that will operate the equipment provided by the winning vendor.

The CEPS contract will include computer systems, disk and tape subsystems, associated components (terminals, printers, etc.), ADP support services (including software conversion, training, and technical support), and maintenance. The base contract

period is five years. Also included are three two-year options to extend the contract period for a total life of 11 years. An optional quantities clause is included that provides for the additional ordering of contract items up to 110% of the contract total, plus the optional periods, if exercised. The inclusion of optional quantities will provide for workload growth, the evolution to TSR, and will eliminate the need for additional contracts to obtain needed items already competitively evaluated for the CEPS contract life.

MR. ROYBAL: What is the status of the CEPS procurement, including the timetable for award, installation, testing and implementation, and what are the estimated costs of conversion?

MR. EGGER: The CEPS Request for Proposal (RFP) is currently awaiting approval for issuance to industry. Contract award is planned for March, 1987. CEPS installation at NCC is scheduled for completion by July, 1987. The contractor completion of the software conversion is scheduled for April 1988. Hardware acceptance testing is to be completed by September 1989. Full installation and implementation at all Service Centers is to be completed by October 1989. Software conversion is estimated to cost $9,500,000.

MR. ROYBAL: To what extent has IRS documented its current system to better prepare contractors who may bid on CEPS? For example, has IRS prepared an inventory of its computer programs and its data files? If so, how recent is this inventory?

MR. EGGER: We have prepared a detailed inventory of the SCRS software to be converted to CEPS. The original inventory was prepared in mid-1984, and was updated in 1985; the final preparation for inclusion in the CEPS RFP occurred at the end of September 1985. We have continued to update the inventory to ensure that all software to be converted is included in the contract.

Additionally, we have also included options in the CEPS RFP for the conversion of software that may be identified after contract award. Since the effort is strictly for conversion of existing SCRS software, (not for new development of additional applications), we have developed a very detailed inventory, down to the individual program level, and have included all relevant data. We obtained the guidelines available from the Federal Software Conversion Center at GSA, which specified the level of detail needed by industry for determination of the effort needed and the development of cost proposals.

Documentation for the existing SCRS software is updated yearly to reflect changes made for each tax season. As an additional safeguard, it is currently being reviewed and, when needed, updated to ensure that it is correct when it is provided to the winning vendor with the programs for conversion.

MR. ROYBAL: Has IRS done a conversion study for CEPS? If so, (a) what is the estimated level of conversion necessary, (b) Ho long will it take, and (c) what is the estimated cost?

MR. EGGER: The IRS completed a Conversion Study of the processing functions being performed at Service Centers utilizing the Federal Conversion Support Center (FCSC) guidelines. The study results showed that over 90% of the approximately 3,000,000 lines of code in the inventory of software were American National Standard (ANS) 74 COBOL. Based on this fact, and the availability of automated tools, we envision approximately 12 months worth of effort at a projected cost of $9,500,000.

MR. ROYBAL: Who will be responsible for testing the CEPS syste s offered by contractors? Is IRS now developing test data for CEPS? How much time does IRS intend to allow for testing the programs and optimizing them? How will IRS ensure that the converted programs function as intended and are fully tested before being implemented at the service centers?

MR. EGGER: All proposed systems that meet CEPS mandatory requirements shall undergo benchmark testing. We are in the final stages of benchmark test preparation, which includes all test data to be used in the benchmark tests. The benchmark is composed of a subset of currently existing SCRS programs that vendors must convert to run on their proposed equipment. To pass the benchmark tests, the vendors must successfully convert these programs, the converted programs must run correctly during the benchmark testing, and they must meet the performance requirements.

Upon contract award, the winning vendor will begin converting th SCRS software according to the conversion schedule as stipulated in the RFP. Prior to providing the software to the vendor for conversion, IRS will compile the SCRS source programs and run them using the SCRS test data files. The SCRS test data files are used yearly by the IRS to test the SCRS system to ensure tha all changes made are correct prior to installing the programs in the Service Centers for use. IRS will run this test to ensure that the SCRS programs given to the vendor are correct. After the vendor has converted the programs and tested them using the SCRS test data, they will be delivered to IRS, as scheduled. IR will then run the converted programs, using the SCRS test data, to determine if they are correct.

Upon completion of conversion of all SCRS software, Systems Acceptance Testing (SAT) will be accomplished to ensure that all programs will operate together correctly. SAT testing will star July 1988, and be completed by January 1989, a period of 6 month

Additionally, prior to installing the converted software in the Service Centers, a pilot test will be conducted at one Service Center in an operational environment to ensure correctness. Upon completion of approximately three months of successful operation at the pilot center, phased implementation will begin at the remaining centers.

All optimization techniques used in the benchmark must be employeed by the Contractor in the conversion. Further optimization will be accomplished by IRS following successful completion of the tax season.

MR. ROYBAL: Is IRS developing a contingency plan in case substantial conversion problems occur? For example, will IRS keep the current Sperry system running in parallel with the new system until that system is fully tested?

MR. EGGER: The contingency plan for CEPS calls for continued use use and support of the SCRS hardware and software in the event that problems occur which delay implementation of CEPS as scheduled. This, then, provides a fallback system on which tax processing can be accomplished in a constrained manner. Once the CEPS system has successfully undergone all testing, phased implementation will be effected. Maintenance of SCRS applications software will cease after successful conversion in all Service Centers.

MR. ROYBAL: Does IRS have a long range plan to ensure sufficient capability to access tax account information? How does IRS assess its needs?

MR. EGGER: The CEPS provides for processing capacity to not only meet short term needs but also to provide the contractual vehicle for support and growth through 1997.

MR. ROYBAL: When does IRS expect to replace CEPS and will this replacement require another software conversion?

MR. EGGER: CEPS will be the cornerstone for TSR under the new evolutionary direction that TSR has taken. The CEPS will provide for ADP resources through 1997. What type of evolutionary conversion will be involved for TSR can not be determined at this time.

SERVICE CENTER REPLACEMENT SYSTEM (SCRS) CAPACITY

MR. ROYBAL: How long will the recently implemented Service Center Replacement System (SCRS) provide sufficient capacity for the Service Centers? How effectively did it function in the 1985 tax filing season?

MR. EGGER: With a controlled workload growth rate of 10% per year, three Service Centers will exceed capacity in 1988 and seven will exceed capacity in 1989. However, the Service is committed to implementing throughput improvements and optimization by 1988 sufficient for all Centers to process through 1989 with the currently installed hardware. The controlled 10% growth rate will provide for normal returns volume increases and legislative changes and a minimal amount, approximately 2%, of enhancements.

The SCRS problems encountered during the 1985 filing season were primarily related to the conversion of our very large computerized tax processing system to new software. Several factors contributed to the capacity shortage. The most significant was the conversion of assembly language to COBOL. Because COBOL was new to us, IRS' programmers were not as experienced in COBOL as the programmers who wrote the programs that were used in the SCRS benchmark process. As a result, the actual processing programs required far more processing time than originally anticipated.

However, COBOL was not the only reason for the longer run times earlier in that filing period. The use of a new data base management system exacerbated this situation; it proved more difficult to adapt to IRS environment than others it has been successfully used in. These two key factors, along with added complexities in the actual programs, resulted in a more complicated data structure and run stream, thus resulting in longer run times, many of which have been significantly streamlined in the past several months.

REALTIME INPUT SYSTEM (RIS)

MR. ROYBAL: To improve returns processing efficiency and responsiveness to the public, we understand IRS has initiated a development project called the Realtime Input System (RIS). The project's objective is to integrate, within a single system, logically associated returns processing functions. For example, this system will combine the input, error corrections, and final processing of return data. Currently these functions are split between two separate systems.

To implement this new system, we also understand that IRS is planning to acquire 11 IBM-compatible CPU's and necessary peripherals to replace the current hardware at all 10 service centers and the National Computer Center (NCC). Originally IRS had planned to issue a Request for Proposals by January 1985 and to award a contract by November 1985. However, we understand that IRS is considering delaying or cancelling the project.

What is the status of the Realtime Input System? Why has the project been delayed and/or cancelled? What does IRS plan to do as a result?

MR. EGGER: The Realtime Input System (RIS) initiative has been cancelled.

The timing of the implementation of RIS was such that it coincided with the major initiative of the Capacity Enhancement for the Processing System (CEPS). After a thorough review and analysis we determined that the nearly simultaneous implementation of two significant initiatives would create too great an impact, and therefore, too great a risk to the tax processing system.

Since CEPS will remove workload from the existing Service Center Sperry systems, we will be able to keep the applications which would have been moved to RIS on the Sperry equipment. However, in approximately two years we must begin an initiative to replace the Sperry equipment due to growth and obsolescence, much as RIS had anticipated. Any such procurement must, of course, fit in with the overall strategy of the Tax System Redesign (TSR).

IRS STUDIES OF SYSTEM USER NEEDS

MR. ROYBAL: Has IRS conducted any studies of its user needs and how each proposed system meets those needs without duplicating other systems?

MR. EGGER: Yes, on July 5, 1985, we established the User Assistance and Computer Capacity Management Office (UACCMO), an organization whose principal responsibilities are to: (1) study the short and long-term ADP needs of all IRS users; (2) assess these needs from the perspective of creating an integrated family of IRS systems to ensure optimum use of appropriate resources; (3) recommend to top management, the hardware and software which will provide the right capacity at the right time; and, (4) monitor use of all systems to measure changing needs and ensure their effective and efficient use. While in the process of hiring and training staff, UACCMO has established user assistance teams for five functional Assistant Commissioner areas and will assemble teams for all remaining areas. Each team will consist of UACCMO and user staff who will jointly develop action plans for identifying and meeting short and long-range needs. Capacity Planning and Measurement is a relatively new field. The Service is negotiating with a consultant to conduct a capacity study for calendar years 1987, 1988 and 1989 of the SCRS System, one of our major tax processing systems.

TAXPAYER SERVICE

MR. ROYBAL: What are IRS' policies with regard to taxpayer assistance?

MR. EGGER: The Service has increased its emphasis on taxpayer assistance in 1986. The Taxpayer Service Division budget is larger this year; not only were additional resources provided by Congress, but IRS directed resources from Examination and Collection to Taxpayer Service.

In 1986, we have reinforced the importance of quality service to taxpayers by emphasizing technical and procedural accuracy, proper taxpayer contact techniques and courtesy. The Service has offered its assistors special training sessions to ensure that they are providing the highest quality assistance.

The IRS is fully committed to providing a variety of services to taxpayers through an active taxpayer education and information effort. Both volunteers and IRS staff offer tax help to the public through the Volunteer Income Tax Assistance (VITA), Tax Counseling for the Elderly (TCE), Community Outreach Tax Assistance and other programs. Library audio and video cassettes and televised tax programs offer taxpayers helpful information. IRS-produced radio and TV public service announcements provide audiences with timely tax reminders.

We have continued to expand our service to taxpayers in non-labor-intensive ways with automated telephone equipment. With this system, taxpayers receive clear, complete information on approximately 150 topics via recorded messages. The equipment also provides callers with some tax refund information. Both convenient services are available year-round.

Finally, our Problem Resolution Program (PRP) offices are open to those taxpayers with problems which have not been resolved through regular assistance channels.

MR. ROYBAL: How have IRS resources been allocated for telephone, walk-in and correspondence assistance programs over the last 3 years and what is the planned allocation for fiscal year 1987?

MR. EGGER: The Service's telephone, walk-in and correspondence assistance programs account for the lion's share of Taxpayer Service's resources each year. The following table summarizes these resource allocations from 1984 through 1986:

	% Of Hours			
	Telephone	Walk-In	Correspondence	Other
1984	67.5%	16.0%	1.1%	15.4%
1985	68.2%	13.9%	1.0%	16.9%
1986 (proj.)	72.9%	12.9%	1.2%	14.4%

In FY 1987, we expect to allocate percentages of hours for the telephone, walk-in and correspondence activities which are similar to the 1986 allocations.

MR. ROYBAL: How many taxpayers used each taxpayer assistance program in tax processing year 1985 and what level of usage is expected for the current tax year?

MR. EGGER: During FY 1985, 42.0 million taxpayers used Taxpayer Service telephones while 8.3 million taxpayers used automated response telephones. The walk-in program assisted 8.1 million people and correspondence assisted 160,000.

For FY 1986, we project: telephones, 45.0 million; automated responses, 10.0 million; walk-in, 8.1 million; and correspondence, 157,000.

MR. ROYBAL: How does IRS assess the benefit to taxpayers and the level of taxpayer satisfaction for these different programs?

MR. EGGER: We have a number of methods that we rely on to assess the benefit to taxpayers and the level of taxpayer satisfaction to our various programs. These include reviewing various reports from GAO, OMB, and Internal Audit; surveys by Roper and Cambridge; Multifunctional Equipment surveys; attendance and feedback from our various educational programs; managerial monitoring; various media reports; and follow-up letters sent to taxpayers on Problem Resolution cases.

MR. ROYBAL: What efforts does IRS make to educate the public on how to make the best use of these programs?

MR. EGGER: This year, the IRS has continued to use mass and specialized media to provide information to taxpayers on our telephone, walk-in and correspondence programs. Television and radio stations and a variety of print media carry public service announcements and/or printed information about the Service's tax assistance programs. Publication 910, "Taxpayer's Guide to Information, Assistance, and Publications," also provides practical information, including a list of Tele-Tax topics and phone numbers. It is available free by calling or writing to us.

Many IRS-produced print materials inform taxpayers of our services. These include newspaper tax supplements, clipsheets for employers' newsletters, bus cards, billboards, and information printed on grocery bags. All are designed to increase the taxpayer's awareness of IRS assistance.

MR. ROYBAL: Under current funding levels, what levels of accuracy, availability and timeliness of taxpayer services are provided and what would they be under the proposed fiscal year 1987 budget?

MR. EGGER: Taxpayer Service wants to provide a 100% level of accuracy on all contacts with taxpayers. Within our quality review program we have developed a weighted accuracy rate report to measure accuracy for each region. As of January 24, 1986, the overall (correspondence, telephones, referrals) weighted accuracy rate nationwide was 95%.

With respect to the timeliness of our service, taxpayers can expect prompt assistance from our telephone, walk-in and correspondence programs again in 1987. Our field offices have been directed to answer telephone calls so that no taxpayer should wait longer than an average of 40 seconds before being connected to an assistor. They also have strict time limits within which to answer correspondence.

MR. ROYBAL: Has IRS made any studies comparing the costs of providing return preparation assistance through the Outreach Program to the costs of providing similar assistance at walk-in offices?

MR. EGGER: The Service prepares a "cost-per-contact" analysis for its taxpayer assistance activities each year. In FY 1984, the cost per Community Outreach Tax Assistance contact was $6.22; the cost per walk-in office contact was $2.32.

It should be noted, however, that the assistance provided at an Outreach session is often very different from the assistance provided in an IRS walk-in office. The help we provide in our offices includes answering specific tax questions and assisting taxpayers with IRS notice-related questions; we prepare very few tax returns--only for the handicapped or those physically unable to prepare their own returns. Most contacts are brief.

Outreach, on the other hand, emphasizes group tax assistance at either return preparation seminars or sessions where taxpayers listen to presentations on new tax laws or on a tax issue of interest. Generally, Outreach sessions are considerably longer than the time it takes for a taxpayer to be assisted in an IRS office. Travel and overtime expenses also help to account for the disparity in the Outreach and walk-in costs-per-contact.

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PENSION PLANS

MR. ROYBAL: For each of the past 10 years, how many requests has IRS received for funding deficiency waivers, how many such requests have been granted, and what was the aggregate amount of contributions waived?

MR. EGGER: We have not recorded all of the information which you are requesting. We did not begin to maintain statistics until FY 1977. We did not record the number of waivers granted after FY 1982 and we have never recorded the amount of contributions which were waived. The number of requests for waivers IRS received and the number of requests granted are as follows:

Fiscal Year	Requests Received	Requests Granted	Contributions Waived
1977	249	28	Not Recorded
1978	339	106	Not Recorded
1979	305	121	Not Recorded
1980	398	167	Not Recorded
1981	441	313	Not Recorded
1982	728	395	Not Recorded
1983	1,003	Not Recorded	Not Recorded
1984	959	Not Recorded	Not Recorded
1985	607	Not Recorded	Not Recorded

MR. ROYBAL: For those plan sponsors who received funding deficiency waivers, how many later terminated their plans or "froze" future accruals under the plans?

MR. EGGER: We have never recorded the number of plan sponsors who received funding deficiency waivers and later either terminated or "froze" future accruals. Since funding waivers are unrelated to plan qualification, statistics are not maintained as part of the determination letter process.

MR. ROYBAL: In light of the recent increases in overfunded terminations of defined benefit pension plans—estimated currently to be over 750 plans with reversion values of about $8 billion—and the 89% increase in spinoff terminations between 1984 and 1985, how successful does IRS consider its May 1984 "Implementation Guidelines" policy?

MR. EGGER: The objective of the May 1984 "Implementation Guidelines" was to prevent employers from taking assets from defined benefit plans unless participants' earned benefits were fully protected, while not discouraging employers from maintaining (both in the first instance and after a plan termination) or properly funding defined benefit plans. We believe that with respect to that objective the "Guidelines" have been successful.

The Service does not compile data comparable to that cited in this question, and although any such data alone would not be sufficient to measure the effects of the "Guidelines", a significant increase in the number of spinoff terminations of defined benefit plans indicates that employers that are terminating such plans are continuing to cover their employees under defined benefit plans. That was our expectation in promulgating the "Guidelines", and we believe that the "Guidelines" successfully assure that participants' interests in their plan benefits are protected yet avoid discouraging the formation and sound continuation of defined benefit plans.

MR. ROYBAL: What is the specific statutory authority for the Guidelines that would support imposition of conditions on the continuing plan where a spunoff plan is terminated, under the Internal Revenue Code, Title IV of ERISA, or any other law?

MR. EGGER: The Guidelines are the ERISA agencies' interpretation of the respective statutes that they administer. They reflect the agencies' enforcement policy under ERISA that reversions are permitted only if the purpose and requirements of ERISA are satisfied. The typical spinoff termination transaction occuring before the Guidelines were issued could have been recast as substantively nothing more than the withdrawal of plan assets from a continuing plan. Consequently, application of the substance over form doctrine to such a transaction by the Service would result in our finding a violation of the "exclusive benefit rule" of section 401(a)(2) of the Internal Revenue Code.

The Service will apply the substance over form doctrine to a spinoff termination where assets revert to the employer unless the requirements under the Code for such a reversion upon plan termination are satisfied. The Guidelines specify these requirements that must be satisfied in order for the Service to recognize a bona fide plan termination and not find a violation of section 401(a)(2) of the Code because of the spinoff and the continuing plan. Accordingly, in these cases the continuing plan as well as the terminating plan must comply with the Guidelines.

MR. ROYBAL: Which 25 plan sponsors have had the largest reversions upon termination of a defined benfit plan over the past two years? For each such sponsor, describe any successor plan provided and how the successor plan provides benefits equal to or greater than those provided under the terminated plan.

MR. EGGER: We are unable to provide the information requested regarding the largest reversions of plan assets to plan sponsors following terminations of defined benefit plans. Although the estimated amount of each such reversion is reported on the application for a determination letter upon plan termination (which is not a mandatory filing), the amount of the reversion is not transcribed by the Service. Therefore, we do not have ready access to reversion figures for specific plans or for the universe of such plan terminations. Of course, an employer that terminates an overfunded defined benefit plan and takes a reversion of plan assets is not required to establish or continue any other plan let alone a successor plan providing equal or greater benefits than those provided by the terminated plan.

SERVICE CENTER OPERATIONS

MR. ROYBAL: Have the problems that occurred in processing tax returns at the 10 service centers during 1985 been fully resolved?

MR. EGGER: We have not encountered any significant problems in processing tax returns thus far. Last year's processing problems have been resolved.

MR. ROYBAL: To what extent were these problems the result of insufficient or poorly trained staff or faulty computer systems?

MR. EGGER: Problems encountered in 1985 were primarily related to problems with our new computer systems. Inexperienced staff compounded the problem. For example, the Error Resolution System was a new computer system last year. In the beginning of the year, we experienced a large amount of downtime. This, coupled with the fact that the staff was just learning the new system created a situation where inventories backed up and, for a time, could not be worked within the proper time frames.

MR. ROYBAL: How does IRS plan to avoid similar problems in tax processing year 1986?

MR. EGGER: We now have a year of experience behind us with our new systems. In addition, program changes for 1986 were fully tested prior to implementation, new training programs related to service center operations have been initiated, additional controls have been developed to identify and correct computer problems quickly, and new monitoring systems have been developed to identify processing problems earlier.

MR. ROYBAL: How much interest did IRS pay on refunds in 1985?

MR. EGGER: As of December 27, 1985, we had paid $49,530,190 interest on returns filed by April 15, 1985.

MR. ROYBAL: How does that amount compare to prior years and what does IRS expect to pay in interest this filing season?

MR. EGGER: This represents a 72% increase over 1984. In 1986, IRS expects to pay interest on no more than 1.9 million refunds which will contain interest of about $38 million.

MR. ROYBAL: Does IRS plan to continue its policy of giving preferential processing to large dollar refunds in order to keep interest costs down, as it did in 1985? If not, what is IRS' current policy?

MR.EGGER: Our policy of manually refunding refunds of $1,500 or more, when the interest free period is in jeopardy, was rescinded on December 11, 1985. Our new policy authorizes manual refunds only for hardship cases, for systemic limitations, and those cases where IRS action has caused a gross disservice to the taxpayer. Hardship situations would include refunds from disaster claims and instances where the refund needs to be expedited to prevent foreclosure or bankruptcy. Systemic limitations include deceased taxpayers where the refund needs to be issued to a surviving spouse or executor and refunds of $1 million or more, which the computer is incapable of issuing. Gross disservice includes any situation where IRS errors have caused a gross delay in the taxpayer receiving a refund.

MR. ROYBAL: How successful was the expedited refund program, which allowed taxpayers who had not received refunds within 16 weeks to file duplicate returns?

MR. EGGER: This program was very successful. We received a total of 328,491 duplicate returns. Upon receipt of these returns, the service centers conducted research to determine if the original return could be located. Only 193,560 returns actually had to be processed; the remainder were located within the service center. We have issued 96% of these refunds and are continuing to expedite processing of the remaining returns.

EMPLOYMENT MIX: 1986 SUPPLEMENTAL

MR. AKAKA: Commissioner Egger, your supplemental request is for 2,456 permanent positions and 6,950 average positions.

How many of these will be part-time positions and how many will be full-time positions?

MR. EGGER: The 6,950 average positions request consists of 4,819 part-time average positions and 2,131 full-time average positions. The large quantity of part-time average positions is necessary to cover peak tax return processing workload in our ten service centers.

REVENUE RESULTING FROM ADDITIONAL TAX EXAMINATION

MR. AKAKA: In 1987, IRS will begin an initiative to add 2,500 average positions a year for a period of three years. You expect that this staff increase will result in the collection of an additional $4.7 billion in revenue by 1990. What revenue increase do you anticipate will be collected in each of the three fiscal years as a result of this initiative?

MR. EGGER: Over the three year period FY 1987-1989, the Service will collect an additional $4.7 billion in enforcement revenues as a result of staffing increases to the examination program. In FY 1987, $600 million would be collected, $1.5 billion in FY 1988, and $2.6 billion in FY 1989. Retaining the additional staffing in FY 1990 and 1991 would produce an additional $5.7 billion in revenue ($2.8 billion in FY 1990 and $2.9 billion in FY 1991). Total revenue of over $10 billion would be collected over the five year period, FY 1987-1991.

MR. AKAKA: Calculate the increase in revenue expected to be collected in FY 1987 per new average position for FY 1987.

MR. EGGER: Our revenue initiative to increase tax examination will add 2,500 positions per year over a three year period. In FY 1987, nearly $600 million will be collected as a result of the efforts of the first 2,500 agents, an average of $240,000 each. I want to emphasize that the Service does not assign revenue collection quotas to individual employees nor does it condone such practices.

MR. AKAKA: Calculate the increase in revenue expected to be collected per dollar expended for increasing your average positions in FY 1987.

MR. EGGER: Our revenue initiative to increase tax examination in FY 1987 by adding 2,500 positions will cost $95 million. In FY 1987, nearly $600 million will be collected as a result of this initiative, an average of $6.35 per dollar expended.

Internal Revenue Service
Supplemental Appropriation Request

Fiscal Year 1986

The Internal Revenue Service requests supplemental funding totaing 6,950 average positions and $340 million in FY 1986. Additional resources are required to improve our tax processing operation as well as provide better service to the public (6,228 average position and $181 million). In the enforcement area, supplemental funding (722 average positions and $16.8 million) is requested to ensure the Service's ability to collect the revenues currently forecast, toincrease examination of domestic corporations having international activity and to get a head start lte in the fiscal year in hiring additional enforcement staff needed to collect additional tax revenus in fiscal years 1987 - 1991. The Service also requires funds to cover various mandatory costs. Asummary of this supplemental request is shown below. Details are explained on the following pages.

	Average Positions	Amount ($000's)
Restore effectiveness of tax processing	5558	$140,232
Improve taxpayer service	670	40,794
Strengthen tax enforcement	722	116,794
Meet unanticipated mandatory cost increases	0	42,180
Total	6950	$340,000

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February 5, 1986

	Average Positions	Amount ($000's)
Restore Effectiveness of Tax Processing	5,558	140,232

Supplemental resources (5,558 average positions and $140.2 million) are required to correct deficiencies in our tax processing system. Of this amount, 5,558 average positions and $133.5 million are needed to process 175 million tax returns and issue 76 million refunds to taxpayers timely and accurately. A breakdown of these supplemental staffing needs are as follows:

— Restore production rates to those achieved in FY 1984 (1,003 average positions)

— Compensate for the decline in recall and retention of experienced seasonal employees (375 average positions)

— Clear up unpostables, adjustments and backlogged taxpayer correspondence (1,475 average positions)

— Improve quality of operations (2,705 average positions) by:

- training new and current employees (575 average positions)
- expanding notice review (440 average positions)
- improving management oversight and supervisory control (685 average positions)
- assuring quality control (265 average positions)
- increasing key verification (430 average positions)
- monitoring and controlling refund returns (70 average positions)
- increasing computer room staffing at our ten service centers to provide for continuous 24 hour, seven day week operation (240 average positions)

To provide reliable sources of electrical power for service centers, an additional $6.7 million is needed. This funding would permit the installation of an uninterrupted power supply (UPS) in each of the seven service centers that currently do not have one. UPS enables installations to provide highly reliable support for end users, without the debilitating effects of intermittent power interruptions, complete shutdowns or potential equipment damage caused by power surges.

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	Average Positions	Amount ($000's)
Improve Taxpayer Service	670	$40,794

An additional 670 average positions and $28.9 million are needed to keep pace with the increased demand of taxpayers for assistance in meeting their tax responsibilities and in resolving their concerns on the status of their tax accounts. Also included are funds to cover toll-free telephone circuitry and to acquire multi-functional equipment which will allow for on-line tax account adjustments — resolving difficulties and avoiding repeat notices and calls — by taxpayer service representatives.

	Average Positions	Amount ($000's)
Strengthen Tax Enforcement	722	$116,794

The Administration proposes the revenue initiative as a short term solution to the decline in voluntary compliance and the growth in the tax gap. Recognizing this problem, additional resources (2,500 average positions) have been included in the budget for FY 1987. Additional Examination staffing (332 positions and $14.5 million) will insure the full revenue potential of the initiative and will place the Service in better shape to use effectively the large influx of agents to come aboard over the next three years, by allowing us to advance hire and train agents late this fiscal year.

Supplemental resources (63 average positions and $2.7 million) are needed to begin a concerted effort to reduce the backlog of tax shelter cases. The additional staffing requested will allow for the hiring and training of appeals officers and attorneys needed to settle the cases next year.

To process the increased volume of currency and cash transaction reports an additional 255 average positions and $6.1 million are required. It is now expected that some 3 million documents will be received in FY 1986 — an increase of 2.4 million (400%) over prior estimates. The reporting of cash transactions is a new requirement of the Deficit Reduction Act of 1984. Currency and cash transaction reports are used by all law enforcement agencies. Many banks and financial institutions have already been found in violation of currency reporting regulations and have been fined accordingly.

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Funds ($3.6 million) are needed to restructure the training given to new agents, to train incumbents in improved auditing techniques and in using portable computers which are now on order. We must also automate our enforcement training and ensure that travel savings, already released from the budget, are indeed captured. Additional ADP funds are also needed for two primary enforcement projects — the automated collection and automated examination systems. Additional ADP needs total $15.8 million.

Supplemental resources ($72.1 million) are also required in our enforcement functions (i.e., examining tax returns, collecting taxes owed but not paid, securing delinquent returns and matching information returns and documents) to ensure the revenue forecast for FY 1986 is achieved. Failure to receive these funds would result in a loss of $1 billion in revenue collections this year.

To increase examination of domestic corporations having international activity, 72 average positions and $3 million are needed.

	Average Positions	Amount ($000's)
Meet Unanticipated Mandatory Cost Increases	0	$42,180

Additional resources are required to cover mandatory costs to:

- o reimburse GSA for rent of space ($21.8 million)
- o finance higher costs of employee relocation resulting from law and regulations ($14.6 million)
- o meet rate increases in toll-free telephone circuitry and lease of ACD/PBS systems ($5.5 million)
- o provide funding for versabraille equipment for visually handicapped employees resulting from a suit filed in U.S. District Court of the District of Columbia on May 25, 1984. ($0.3 million)

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INTERNAL REVE

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JOHN F. W. ROGERS, ASSISTANT SECRE
MENT)
ROSCOE L. EGGER, JR., COMMISSION
SERVICE
JAMES I. OWENS, DEPUTY COMMISSIO
FRED T. GOLDBERG, JR., CHIEF COUNS
VERNON J. OWENS, DEPUTY CHIEF CO
PHILLIP E. COATES, ASSOCIATE COMM
M. EDDIE HEIRONIMUS, ASSOCIATE C
NORMAN A. BOLZ, ASSOCIATE COMM
MENT)
STEPHEN E. TAYLOR, DIRECTOR, FINA

Mr. ROYBAL. The committee wil
noon, we will hear from the Dep
regard to their fiscal year 1987 b
Revenue Service.

Mr. Commissioner, will you plea
may desire, either you or Mr. Roge

Mr. EGGER. I believe Mr. Rogers.

Mr. ROGERS. Thank you, Mr. Cha

SUMMA

I am pleased to have the oppor
President's fiscal year 1987 budget
nue Service (IRS).

Commissioner Egger is with me,
details of the IRS proposals. I am h
support for the fiscal year 1987 requ

The budget for the Internal R
theme of the fiscal year 1986 supp
confidence and strengthening of c
achieved in two important ways.

First, IRS will maintain efforts
rebuild the tax processing system
ers.

Second, there will be increased e

In addition, the budget provides f
in earlier years to modernize IRS
technology.

In total, the fiscal year 1987 requ
positions, an increase of $272 milli
level requested in fiscal year 1986.

EDNESDAY, FEBRUARY 19, 1986.

NUE SERVICE

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Revenue Service maintains the
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The request maintains funding included in the supplemental for tax processing and taxpayer service activities, and provides $11 million to meet the expected growth in the taxpaying population.

TAX GAP

The fiscal year 1987 request seeks to address the continued erosion in the level of taxpayer compliance with the tax laws. The estimated tax gap in reported liability is running in the neighborhood of $100 billion annually—about one-half of the current deficit.

Since 1973, when IRS began measuring the total income tax gap, the gap has risen from $29 billion to the current level. This results in an increase in the burden on taxpayers in general. Accordingly, the fiscal year 1987 budget includes $136 million to strengthen compliance activities.

STRENGTHEN TAX ENFORCEMENT

The cornerstone of the budget is a major revenue initiative. The proposal calls for annual increments of 2,500 examination staff for three years, beginning in fiscal year 1987. This will result in an estimated $10 billion in additional revenue between fiscal year 1987 and fiscal year 1991 at a cost of $1.3 billion.

The IRS budget includes increases in other high revenue yielding activities—accelerated litigation of pending tax shelter cases and resolution of unreported income cases disclosed through the effective document matching program.

These increases will permit the IRS to make proper use of the numerous reporting documents that recent legislation requires taxpayers to submit.

ADP INITIATIVES

The request also includes an increase of $52 million for automated systems initiatives. This reflects the Department's view that the protection of the integrity of the system demands investments that will provide for increased effectiveness over the long term as well as the budget year.

The additional resources will continue critical modernization efforts in tax processing and tax enforcement programs. The major project in this area—automation of the examination activity—will streamline the audit function through the use of automated equipment, resulting in an increase of over 20 percent in productivity for IRS agents and an estimated increase in revenue collections of over $5.1 billion through fiscal year 1991.

MANDATORY COSTS

The remainder of the increases are for costs to maintain current staff levels, primarily due to price increases that are in accordance with the President's economic assumptions. These net costs total $84 million.

SUMMARY

In conclusion, the fiscal year 1987 budget request provides for the continued rebuilding of the tax system through the mainte-

nance of the efforts begun in fiscal year 1986, increased modernization and strengthened compliance.

IRS budget initiatives for tax enforcement provide the opportunity to increase Federal revenues without raising taxes. Through direct enforcement activities, IRS will add an estimated $41 billion to deficit reduction efforts in fiscal year 1987.

Mr. Chairman, the Department urges favorable consideration of the requested resources. After the Commissioner presents the specifics of the request, we will be glad to answer questions.

Mr. ROYBAL. Thank you.

Mr. Egger.

Mr. EGGER. Mr. Chairman, I will try to summarize the statement here and hit the high points as much as possible, because I believe the important thing here is to be able to respond to the questions that you and the members of the committee might have.

As I said this morning, the budget for fiscal year 1987 is critical in the same sense that the budget for our supplemental for fiscal year 1986.

I would like to point out the highlights here in our 1987 budget.

REVENUE INITIATIVE

First, the revenue initiative, which Secretary Rogers has already referred to and which we described here before the committee last year. This is an increase of 2,500 positions each year for three years in our exam program.

As was mentioned to you then, I believe and I have believed for a long time, that our examination coverage is inadequate to monitor the system the way it should, and I think the trend in recent years of compliance is a pretty good indication that our monitoring hasn't been up to where it needs to be.

The addition of the 2,500 each year for three years will put something more than $4.5 billion in the Treasury over and above the other resources, I mean the other revenues that we would collect, and by continuing on into 1991, that level of resources will result in revenues in excess of $10 billion.

I think this initiative is clearly a method of raising the needed revenues without increasing the taxes, but rather simply collecting the taxes that are already owed.

DOCUMENT MATCHING

Another area is in document matching. As you know, we started out back in the early 1970's getting information reporting, and it hasn't been until the last few years that our document matching program has caught up to the level where it has become, I think, very effective.

Today, with the capabilities that we now have in our service centers, we are able to match up nearly 95 percent of the documents that we get in, and by next year, that is in the next cycle, we will have the capacity to match up 100 percent.

Now, matching those documents is only part of the story, because we must then have people who can take the mismatches, if you will, and then make the actual physical comparison, and proceeed with the adjustments to the taxpayers' accounts.

We plan that we will assess some $25 million in additional taxpayer penalties as well as issuing nearly 14 million warning letters to payees who are not now correctly reporting the information returns, so that not only is the match up important, but a monitoring of the people who are supposed to render those reports to us.

TAX SHELTER BACKLOGS

Another area is tax shelters. In order to expedite the resolution of this huge case backlog, we have requested 465 positions at a cost of $20.6 million. This is to deal with the 372,000 tax returns that we have in our shelter category right now.

In other words, we have 372,000 returns that we classify as shelter issue returns under examination at the present time.

We also have an inventory in appeals of more than 40,000 cases involving something like $18 billion. Between that and the tax court inventory of 73,000 cases, we are talking about 32 to 33 billion dollars of tax that is in the offing just in those cases alone, without referring at all to the 372,000 returns that are in the pipeline, so to speak.

This is important not only from the revenue standpoint, but it certainly is important from the standpoint of, again, maintaining the compliance level in our system. We think that that, too, is an important area.

ADP AND SYSTEMS MODERNIZATION

Then ADP and systems modernization, I can only tell you that, from where I sit today, looking forward in the world of tax administration, there are dramatic developments that will take place over the next several years, and we have to position ourselves to be able to move into the 1990's in the world of information technology.

If we don't continue that forward motion that is now underway, when the time comes for us to be in a position to deal with the rapid expansion from the world of information technology, we will be on the sidelines watching it go by.

So, I simply have to say to you that we cannot afford to let this kind of technological development happen around us. We have to be part of it.

MANDATORY COSTS

Then, finally, we have to have the money just simply to keep up those costs which are mandatory, whether it is printing tax returns or distributing them or putting them in the mail or taking off the checks and getting those into the banks and on and on, all of the things that we must do. We need resources to do that.

SUMMARY

In conclusion, I would like to emphasize that the objectives of the budget requests are to continue to devote the highest priority to tax processing and taxpayer service, and to collect additional tax and enhance compliance with the tax laws of the country.

With this budget, we will begin a major revenue initiative which will extend through fiscal year 1991 and realize a total revenue gain of $10.3 billion, expand document matching with emphasis on correcting erroneous taxpayer identification numbers, and following up on returns with apparent underreported income, expedite resolution of tax shelter cases backlogged in administrative appeal and tax litigation, and continue implementation of ADP modernization projects which we have begun in years before.

I would like to close, Mr. Chairman, by thanking you and the other members of this committee for all the consideration that we have had in my five years in this position. Would that every committee of Congress were as easy to work with and as understanding as this committee. Thank you.

Mr. ROYBAL. Thank you.

Mr. EGGER. I have some additional charts, if I could. These are along the lines of the ones we had this morning, but I think they graphically tell the story.

REVENUE INITIATIVE

First of all, let's look at this one. This is the revenue initiative, and as you can see, our costs in the orange bars shown there ultimately aggregate $1.3 billion, and the revenues are $10.3 billion, so that the return, so to speak, is about one for ten.

As you can see, it starts off fairly slowly in fiscal year 1987, with about $600 million of revenue for $100 million of costs, but then the ratio develops pretty rapidly thereafter, so that if we were to go from now until the end of 1989, and then just release all of those people, the 7,500 positions, we would still be $4.7 billion ahead in terms of total revenues.

Obviously, that doesn't make a great deal of sense, since by simply holding on to those people, and this doesn't contemplate any further increases, we still come out at $10.3 billion.

Two things about this. One is the revenue, of course, and that is very important in today's circumstances; but the second thing I would like to point out is that we couldn't continue to do this, were it not a fact that we are below what I regard as an adequate coverage level in examining tax returns.

DIRECT ENFORCEMENT REVENUE COLLECTIONS

This one shows our direct enforcement revenue collection. This is what we collect from direct enforcement. Admittedly, for an agency that collects some $800 billion a year, for us to talk in terms of collecting $38 billion from direct enforcement doesn't seem like a high percentage, but I can assure you that if we didn't do what we needed to to collect the $38 billion, that some part of that $800 billion would begin to drift away pretty rapidly.

As you can see in examination, we go from fiscal year 1986 to fiscal year 1987 with a fairly sizeable jump in the amount of dollars collected, an increase of nearly $2 billion.

That is, in part, due to the revenue initiative and in part due to the productivity gains which we will have from our automated exam system.

Then in accounts receivable, which is collection, we are maintaining a very, very good record there, and it will increase somewhat, but we have already experienced fairly significant increases from the earlier revenue initiative.

In the delinquent returns, this is an area that we want to continue to concentrate on, because in the document matching and in the delinquent returns area, the costs are already sunk, so to speak, and our marginal return in terms of not only dollars of revenue but, again, bringing people back into the system is a very, very positive and a very necessary step.

ENFORCEMENT REVENUE AND IRS BUDGET

The next chart shows the billions of dollars that have been collected over period of time from 1980 to 1987, and the orange bars show the total budget for Internal Revenue.

Now, as you can see, starting off in 1980—and again these are in constant 1986 dollars—our budget of $3.1 billion produced in enforcement revenues $21.8, and then with no increase in 1982, it moved up to almost $29 billion.

In 1984, with a very little increase, it moved up to nearly $37 billion, and then in 1986, because it was a flat budget and because we had to redirect a lot of our resources into the returns processing area, it falls off, and it is in this area here where, in order to maintain that $35 billion, even in fiscal year 1986, the amount of money that is in our supplemental that we discussed this morning is important, because that is the number that is going to fall off even further if we begin to shave those enforcement resources.

Our forecasting for 1987, with a $4.1 billion, is just at $38 billion of additional revenues from direct enforcement activities.

FY 1987 BUDGET NEEDS

The next chart shows a rundown of the budget and the principal areas where we will be showing increases and as you can see, the revenue initiative is $94 million of the increase.

The tax shelter initiative is $21 million, as is the document matching initiative. Our systems modernization is $52 million, and then $84 million allocated to mandatory costs and our growth in workload.

That comes up to the $4.1 billion or $4.098 billion which is our request.

IRS PROGRAM RESPONSIBILITIES

In the next chart, our program responsibilities, this is what we do and the amounts involved. In our processing of principal tax returns and associated documents in fiscal year 1987—we will be right at 180 million returns that we have to receive, process and account for.

We will have refunds going to 80 million people around the country. Information returns will now, by fiscal year 1987, have risen to one billion pieces of information that we must process and associate on our master file with taxpayer accounts.

We expect to collect $800 billion. That is out of a total revenue collection of about $850 billion. So, as you can see, we are responsible for collecting over 90 percent of the total revenues.

Our direct enforcement revenues, as I have already said, total $38 billion, and the number of taxpayers which we assist in our taxpayer program is 65 million.

It is also important that we note—and this is on the bottom of the chart—that we are a major partner in efforts made by the government across the board to combat organized crime and drug abuse and drug trafficking.

We, in South Florida, for example, have more than 100 people who do totally this kind of thing. We have got as many, if not more, people committed to such efforts as Operation Greenback as any other agency in the Federal Government. Nearly half of our direct investigative strength is now directed toward activities of organized crime and drug trafficking.

It is important that the committee understand that we have that role as well as collecting revenue.

The reason that we do that, of course, is that these activities almost always involve unreported income and untaxed income as well as, of course, the other social problems which they create.

With that, Mr. Chairman, we will be pleased to try to respond to the questions that you and the committee members may have.

Mr. ROYBAL. Thank you, Mr. Egger.

[The statement of Roscoe L. Egger, Jr., follows:]

DEPARTMENT OF THE TREASURY
Internal Revenue Service
FY 1987 Budget Request
Statement of Roscoe L. Egger Jr.
Commissioner of Internal Revenue
before the
Committee on Appropriations
Subcommittee for Treasury, Postal Service
and General Government

Mr. Chairman and members of the Committee, I am pleased to be here today to present the proposed budget for fiscal year 1987 for the Internal Revenue Service. I have again brought along my associates, whom I introduced earlier.

Summary

Mr. Chairman, this budget request is submitted in keeping with the goal of reducing the federal budget deficit and in recognition of the need to carry out our basic responsibilities to the taxpaying public. This means providing a high level of service to taxpayers when they require information to file or have questions concerning their account, and processing their returns expeditiously and accurately. It also means collecting as fully as possible the revenues which are owed. In order to meet these responsibilities, the IRS requests an appropriation of 95,084 positions and $4.1 billion -- an increase of 1,360 positions and $272 million over the fiscal year 1986 proposed level. This budget would put tax administration on a strong and sound footing. The President is supporting this budget to maintain an appropriate level of tax processing and taxpayer service and to put the IRS in the position to bring in additional tax revenue to reduce the deficit.

The Internal Revenue Service has a unique and vital role in deficit reduction. In fiscal year 1987, IRS will collect $800 billion in tax revenues -- over 90% of all Federal revenues. For every dollar cut from IRS, other Government programs would need to be cut ten dollars to meet deficit reduction targets.

Revenue Initiative

This request includes an increase of 2,500 positions and $94.4 million as the first full year of a major revenue initiative. Fiscal year 1987 represents the initial year of the initiative which was proposed in the President's budget message. Under this initiative, we will add 2,500 positions

each year for a period of three years -- fiscal years 1987 through 1989 -- to examine additional tax returns. The result of this will be to increase revenue collections by $4.7 billion during the three-year period. By retaining these resources in fiscal years 1990 and 1991, we will collect an additional $5.6 billion for a total revenue gain of $10.3 billion (FY 1987 - 1991).

The new staff will be used to expand audits of tax returns with emphasis on high income individual and business tax returns. In fiscal year 1987, these additional resources will allow the Service to examine 120,000 more tax returns and collect $600 million in additional tax revenue.

Mr. Chairman, this initiative represents a method of increasing Federal revenues without raising taxes. It would identify taxes which are already due and owing to the Government. We estimate that unpaid and unreported tax liability currently totals over $100 billion annually. As you know, one limitation on IRS collections has been the shortage of tax enforcement staff.

Document Matching Initiative

An additional 795 positions and $21.0 million are requested to expand document matching. Under the document matching program, the Service systematically matches information returns, such as wage, interest and dividend statements, with the related income tax returns. Through this matching process, the Service is able to identify, verify and correct income reporting discrepancies or nonfiling of tax returns, and to collect any additional tax due or refund any overpayments. With the requested resources, the Service will increase the volume of underreporter contacts in fiscal year 1987 from 4.3 million to 5.5 million notices, with a resulting increase in assessments of $229 million. In addition, the Service will expand its program to correct erroneous taxpayer identification numbers. We will asssess $25 million in additional payer penalties and issue 13.8 million warning letters to payees with incorrect numbers. Additional revenue collected in fiscal year 1987 from this initiative should total $167 million.

Site Preparation: Tax Processing

Tax Processing in the ten service centers is now being performed by the Service Center Replacement System (SCRS). As of December 1985, 20 additional Sperry CPU's called Service Center Upgrade of Main Frame Processing System (SCUMPS) have been installed. A replacement system for SCRS/SCUMPS called Capacity Enhancement for the Processing System (CEPS) will provide necessary computer capacity until our major tax system redesign comes on line in the early 1990's. The FY 1986 IRS budget, as adjusted, includes $3.1 million to fund architectural designs for expansion of computer room space, including separate rooms for printing equipment, at all ten service centers and the National Computer Center. Also included is $1.9 million for space alterations at the National Computer Center.

Administrative Provisions

Section 1. Notwithstanding any other provision of this title, any appropriations made available to the Internal Revenue Service for the current fiscal year may be transferred to any other Internal Revenue Service appropriation to the extent necessary for increased pay costs authorized by law.

This appropriation language would provide the Internal Revenue Service authority to transfer funds related to pay costs among appropriations. This gives the IRS flexibility to correct misallocations which occurred when the 5% pay reduction was restored.

Section 2. Not to exceed 5 per centum of any appropriation made available to the Internal Revenue Service for the current fiscal year may be transferred to any other Internal Revenue Service appropriation.

This authority would enable Internal Revenue Service to transfer funds between operating appropriations so as to minimize disruptions to programs resulting from budget reductions such as those required under the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177).

INTERNAL REVENUE SERVICE

RECAP OF FY 1986 RESOURCE NEEDS
DOLLARS IN MILLIONS

CATEGORY	RESOURCE NEED		ALREADY PROVIDED BY CONGRESS IN CONTINUING RESOLUTION (P.L. 99-190)		PROGRAM SUPPLEMENTAL		GRAMM-RUDMAN-HOLLINGS REDUCTION		TOTAL FY 1986 LEVEL	
	FTE	DOLLARS	FTE	DOLLARS	FTE	DOLLARS	FTE	DOLLARS	FTE	DOLLARS
PRESIDENT'S BUDGET REQUEST FEBRUARY 4, 1985	86,489	$3,511.2	86,489	$3,511.2					86,489	$3,511.2
5% PAY RESTORATION JULY 29, 1985		100.1		100.1						100.1
SUB-TOTAL	86,489	3,611.3	86,489	3,611.3					86,489	3,611.3
SUPPLEMENTAL NEEDS:										
RESTORE EFFECTIVENESS OF TAX PROCESSING	5,843	171.6	285	31.4	5,558	140.2			5,843	171.6
IMPROVE TAXPAYER SERVICE	670	40.8			670	40.8			670	40.8
STRENGTHEN TAX ENFORCEMENT	722	116.8			722	116.8			722	116.8
MEET UNANTICIPATED MANDATORY COST INCREASES		42.2			0	42.2			0	42.2
CURTAILMENT OF SPENDING								(156.6)		(156.6)
TOTAL	93,724	$3,982.7	86,774	$3,642.7	6,950	$340.0	0	($156.6)	93,724	$3,826.1

FEBRUARY 5, 1986

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Tax Shelter Initiative

To expedite resolution of tax shelter cases backlogged in administrative appeal and tax litigation, we request 465 positions and $20.6 million. This initiative is proposed to reduce the number of tax shelter cases -- representing some 372,000 returns -- now in inventory within the Exam function. These cases will be proceeding to the administrative appeals and Tax Court dockets within the next few months. Already there is a non-docketed inventory in the Appeals function of over 41,000 units involving over $18 billion. In addition, the Tax Litigation function is working with a Tax Court inventory of over 73,000 units involving almost $15 billion.

With these additional requested resources, we will be able to close almost 15,000 additional appeals units and resolve over 11,000 additional cases in tax litigation. This tax shelter initiative will accelerate the collection of tax revenues by some $600 million in fiscal year 1987. Failure to increase staffing for IRS will only shift the bottleneck of tax shelter cases from IRS to the Tax Court and further delay the resolution of $33 billion in disputed tax liability.

ADP and Systems Modernization

This request includes 82 positions and $51.8 million to continue implementation of ADP modernization projects begun in prior years. We will continue the fully implemented Automated Collection System which has streamlined our office Collection function and accelerated revenue collections. Under the Automated Examination System, we will provide portable computers to all revenue agents. We will implement several key enhancements to our highly-automated document matching program. And we will continue to pilot such projects as electronic filing and laser storage of tax return data. We must continue our forward movement in applications of information technology to tax administration. We simply cannot afford to let state-of-the-art technology pass us by.

Maintain Tax Administration

Finally, resources totalling $84 million are needed to cover mandatory cost and workload increases. This is a net requirement after nonrecurring certain funds from the prior year. In fiscal year 1987, we will process 3.5 million more tax returns and supplemental documents, maintain our commitment to the President's task forces on organized crime and drug enforcement, and provide tax law and account assistance to 65 million taxpayers through direct assistance or taxpayer education.

SALARIES AND EXPENSES

Executive Direction

The Executive Direction function includes my office, the Chief Counsel's office, the three Associate Commissioners, and the Assistant Commissioner (Inspection). Included in my office are the Equal Employment Officer, the Taxpayer Ombudsman, the Assistants to the Commissioner for Public Affairs and Legislative Liaison, and their immediate staffs.

The budget for Executive Direction totals 122 average positions and $8.7 million, a net decrease of five average positions reflecting realignment of administrative services and a net increase of $441,000 to cover mandatory costs.

Management Services

The Management Services activity develops and provides Servicewide policy for managing the human, logistical and financial resources needed to fulfill the Service's tax administration mission in a cost effective manner. Specifically, the following major programs are included under Management Services: personnel and training; logistics; planning; budget and accounting; payroll and management information; tax and operational research and development; tax administration assistance to other governments; administration of regulations governing the practice of representatives before the IRS and ATF; disclosure and security; design of tax forms and instructions.

The FY 1987 Management Services request totals 1,922 average positions and $86.4 million, a decrease of 22 average positions and an increase of $4.7 million to cover mandatory costs over the revised level for FY 1986.

PROCESSING TAX RETURNS

Returns Processing and Revenue Accounting

This activity provides for processing tax returns, issuing refunds and notices of tax due, accounting for revenues, and processing information returns for document matching.

The resources requested for Returns Processing and Revenue Accounting total 25,844 average positions and $956.7 million, a decrease of 1,590 average positions and an increase of $9.4 million. With the resources requested, we will receive and process almost 180 million tax returns and issue almost 80 million refunds.

The resources requested include 473 average positions and $10.5 million to process 3.5 million more tax returns and supplemental documents, and to issue notices, tax bills and refunds promptly. In addition, 660 average positions and $17.1 million will be used to increase the volume of underreporter contacts under the document matching program in FY 1987 to 5.5 million notices and expand the program to correct erroneous taxpayer identification numbers (TIN's) by assessing $25 million in additional payer penalties and issuing 13.8 million warning letters to payees with incorrect TIN's. Finally, $2.1 million is needed for the Integrated Telecommunications Network and the Service Center Cost Accounting/Integrated Management System.

An integral part of our returns processing system is to math verify the tax returns filed. This yielded a net $4.1 billion in FY 1985.

Computer Services

The Computer Services activity provides comprehensive developmental data processing support for the Service, including the development, acquisition, installation, and evaluation of computer systems for tax administration. The request totals 1,483 average positions and $306.2 million, a decrease of 27 average positions and an increase of $39.7 million over FY 1986.

The resources requested will be primarily devoted to maintaining existing ADP systems and continuing projects initiated in prior years, such as Integrated Data Retrieval System, Tax System Redesign, Automated Examination System, and Information Returns Program enhancements.

For FY 1987, we are requesting that not to exceed $50.0 million remain available until expended for systems modernization initiatives in the Processing Tax Returns Appropriation. The purpose of this authority is to allow for the lengthy procurement process, site preparation and other unanticipated delays in acquisition of services, equipment and supplies to support approved ADP and systems modernization initiatives.

EXAMINATION AND APPEALS

Examination

I would like now to comment briefly on our Examination program. Examination of returns is one of the primary means through which full compliance is encouraged, errors corrected and public confidence in fair administration maintained.

Requested resources for the Examination program in FY 1987 total 32,484 average positions and $1,315.2 million, a net increase of 2,562 average positions and $143.1 million above the level for FY 1986.

At the requested program level, we plan to audit about 1.7 million returns in district offices and service centers and to make 1.1 million service contacts and W-4 program contacts in FY 1987, including follow-up on underreporting of income disclosed by matching information returns filings with taxpayers' returns.

We estimate that the additional tax, penalties and interest assessed from these efforts will be $15.7 billion, $1.3 billion over that estimated for FY 1986.

This request includes an increase of 2,500 average positions and $94.4 million as the first installment of a planned revenue initiative, 59 average positions and $6.1 million to continue implementation of the Automated Examination System (AES), $3.2 million to establish an automated network for the questionable W-4 program, 135 average positions and $3.9 million for the document matching program to complete followups on underreported income cases, and $1.7 million for establishing the Integrated Telecommunications Network.

Appeals and Tax Litigation

The Appeals program offers taxpayers an independent administrative review of contested tax assessments proposed by the Examination activity, of certain penalties assessed by service centers and the Collection program, and of certain determinations made by the Employee Plans and Exempt Organizations programs. It provides taxpayers an opportunity to resolve disputes with the least possible delay and encourages compliance by maintaining public confidence in the Service's ability to administer the tax laws fairly and impartially.

The Tax Litigation function represents the Service in judicial proceedings that cannot be resolved through administrative appeals.

A total of 4,097 average positions and $188.8 million is requested in FY 1987 for Appeals and Tax Litigation, an increase of 497 average positions and $28.8 million above the FY 1986 level.

An initiative is proposed to reduce the number of tax shelter cases (representing some 372,000 returns) now in inventory. Failure to increase staffing for Appeals and Tax Litigation will only shift the bottleneck of these tax shelter cases from IRS to the Tax Court. With the additional staffing requested, we will be able to close almost 15,000 additional appeals and resolve over 11,000 additional cases in tax litigation. The tax shelter initiative will accelerate the collection of tax revenue by some $600 million in FY 1987.

Employee Plans and Exempt Organizations

The Employee Plans and Exempt Organizations activity is responsible for maintaining compliance with certain tax laws by monitoring employee pension plans, by determining the qualifications of organizations seeking tax-exempt status, and by examining the returns of exempt organizations.

Resources of 2,393 average positions and $99.2 million are requested in FY 1987 for Employee Plans and Exempt Organizations, a decrease of 8 average positions and an increase of $4.1 million over FY 1986.

During FY 1987, resources will primarily be devoted to handling the substantial volume of determination letter applications that are resulting from the passage of the Tax Equity and Fiscal Responsibility Act of 1982, the Retirement Equity Act of 1984 and the Deficit Reduction Act of 1984.

In the Exempt Organizations area, the requested resources provide staff to issue prompt responses to approximately 76,000 requests from organizations seeking tax-exempt status and appropriate advance assurance of the deductability of contributions.

INVESTIGATION, COLLECTION AND TAXPAYER SERVICE

Tax Fraud Investigations

The Tax Fraud Investigations activity is responsible for investigating criminal violations of the Internal Revenue laws. The resources for this activity in FY 1987 total 4,408 average positions and $223.8 million, a decrease of 5 average positions and an increase of $13 million over the FY 1986 level.

A greater emphasis is being placed on the growing amount of activity involving fraudulent tax shelters, questionable refund schemes, offshore banking, tax havens and the need to maintain a strong presence in the illegal tax protester area. The Service will continue to commit a substantial level of resources to the specialized enforcement areas of organized crime and narcotics trafficking. In addition, the Service will maintain its commitment of resources to the President's task forces on organized crime and drug enforcement. In FY 1987, 262 average positions and $13.6 million are budgeted for this project.

Resources of $1.7 million are also included to fund the Integrated Telecommunications Network.

Collection

The Collection activity has the responsibility to collect unpaid accounts; secure delinquent returns; determine and analyze why accounts become delinquent; develop and implement programs to prevent accounts from becoming delinquent and prevent nonfiling; determine and analyze the reasons for nonfiling; and measure the types and degrees of nonfiling.

The proposed budget for Collection totals 16,068 average positions and $635.5 million in FY 1987, an increase of 12 average positions and $28.3 million above the FY 1986 level.

In the Accounts Receivable Program, the Service will complete action on some 2.6 million unpaid accounts and collect revenue of $8.9 billion, an increase of $205 million over FY 1986.

In addition, the Service will collect revenues of $8.6 billion from initial billing on unpaid accounts. The Delinquent Returns Investigations Program identifies taxpayers who have not complied with their filing requirements. The requested resources will enable the Service to secure 3.4 million delinquent returns and asssess $5.3 billion in unreported tax.

FY 1985 was the first full year of operation for the Automated Collection System (ACS) which utilizes modern computer and telephone technology to improve office operations and to accelerate the collection of unpaid taxes.

During FY 1985, the Service began development of an integrated system that will automate the remaining collection activities -- the Collection field and special procedures functions and Collection service center operations. This integrated system will provide Collection employees with direct access to a taxpayer's account and will result in improved case processing and taxpayer relations. Development of this system will continue throughout FY 1986 with nationwide implementation scheduled during FY 1987 and 1988.

Taxpayer Service

The Taxpayer Service activity promotes voluntary compliance with Federal tax laws on the part of all taxpayers by informing them of their responsibilities and by providing service which will assist them in meeting their obligations. This activity also provides assistance in resolving taxpayer inquiries concerning their accounts and information about Internal Revenue Service notices and procedures.

Resouces requested for FY 1987 total 4,860 average positions and $210.1 million -- the same basic level budgeted in FY 1986 after adjusting for realignment of administrative services. The FY 1987 program provides a balanced and cost effective system for providing essential tax information and account assistance to the public. Over 45 million taxpayers will be served through direct assistance. Taxpayer education programs and automated responses will provide information to another 19 million taxpayers.

The Tax Counseling for the Elderly program is funded at the FY 1986 level of $2.2 million for grants to participating organizations. Printing, travel, training and other administrative expenses to maintain this particular program are financed separately.

Enforcement Litigation and Rulings

The Enforcement Litigation and Rulings activity provides legal support for the Tax Fraud and Collection functions, prepares and reviews proposed legislation and regulations, interprets tax statutes, and provides general legal advice within the Service.

The requested resources of 1,403 average positions and $67.2 million in FY 1987 represent a decrease of 30 average positions due to reorganization and an increase of $1.1 million over the FY 1986 level.

Summary

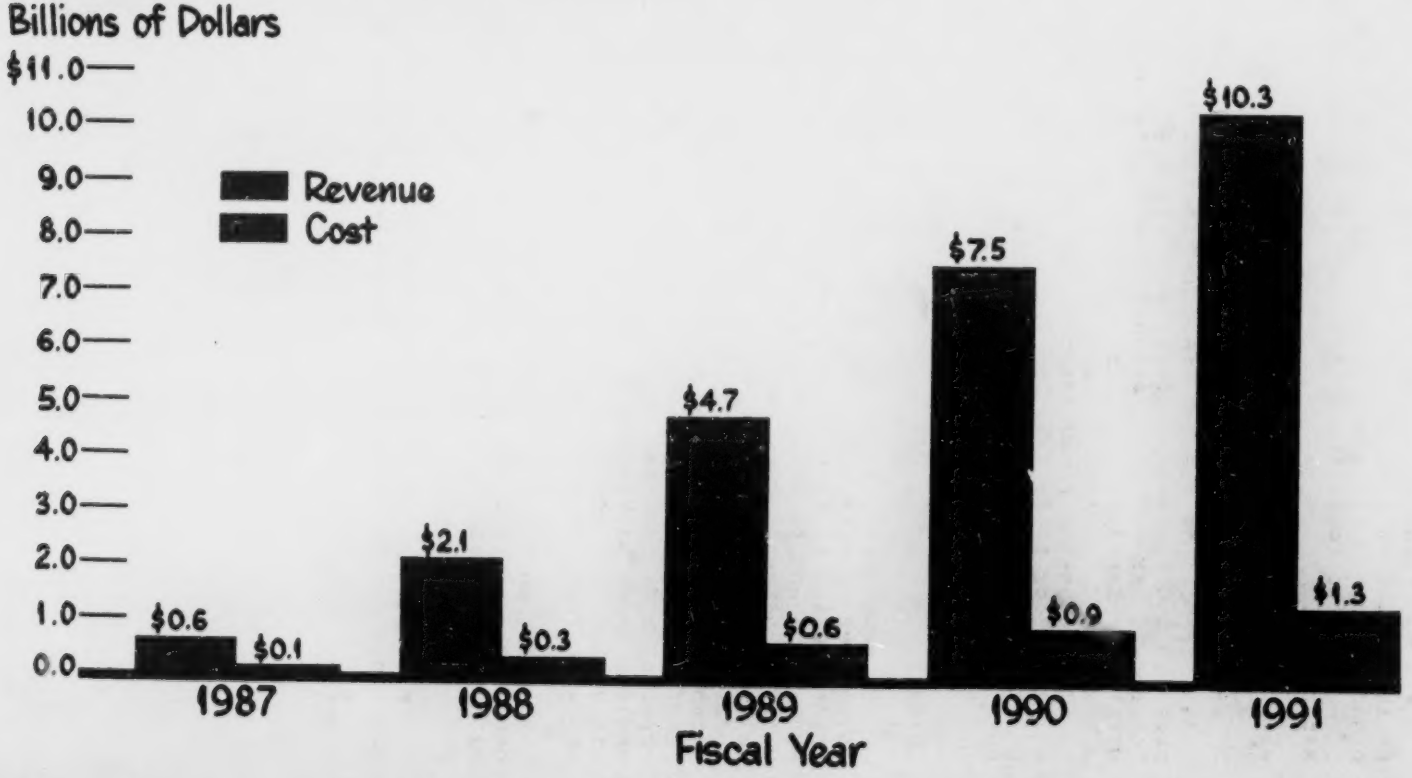
In conclusion, I would like to emphasize that the objectives of this budget request are to continue to devote the highest priority to tax processing and taxpayer service operations and to collect additional tax and enhance compliance with the nation's tax laws. With this budget, we will begin a major revenue initiative which will extend through FY 1991 and realize a total revenue gain of $10.3 billion, expand document matching with emphasis on correcting erroneous taxpayer identification numbers and following up on returns with apparent underreported income, expedite resolution of tax shelter cases backlogged in administrative appeal and tax litigation, and continue implementation of ADP modernization projects begun in prior years.

I want to close by thanking the Committee for its support over the last five years. I have sincerely enjoyed working with you and want to extend my personal best wishes to each of you.

Mr. Chairman, my colleagues and I will be pleased to answer questions you or the members of the Subcommittee may have.

FY 1987 - 1991 Revenue Initiative

Cumulative Revenue and Cost



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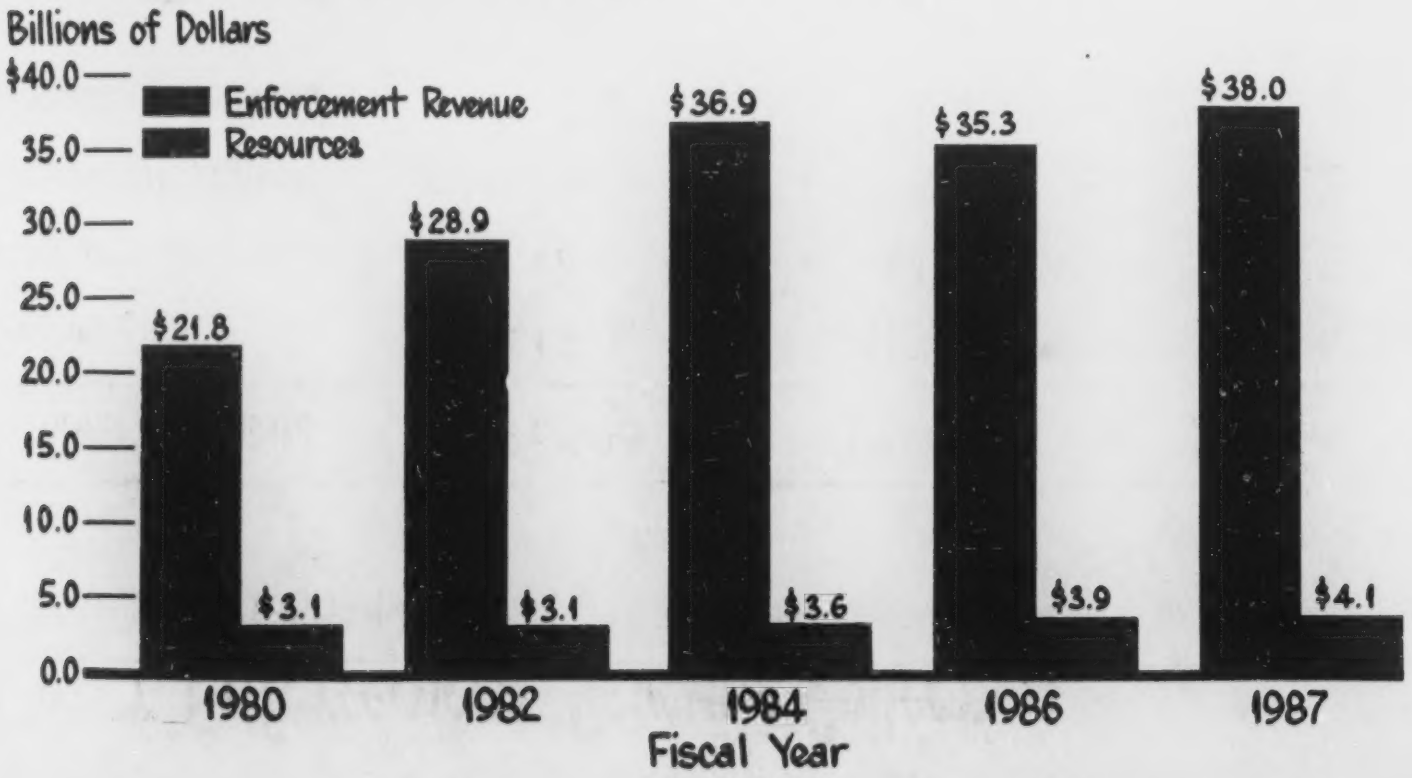
Direct Enforcement Revenue Collection

Fiscal Years 1986-1987

Billions of Dollars	FY 1986	FY 1987	Difference
Examination	$13.3	$15.2	+$1.9
Accounts Receivable	14.0	14.3	+ 0.3
Delinquent Returns	5.0	5.2	+ 0.2
Document Matching	3.0	3.4	+ 0.4
Total	$35.3	$38.1	+$2.8

Internal Revenue Service

Amounts in FY 1986 Constant Dollars



Mr. ROYBAL. It is interesting to note that you have requested a tremendous increase in both personnel and money in 1987.

In fact, the total amount is $611,655,000 more than your previous request, and you have made an excellent statement justifying that particular request.

As you know, I have been on this committee for a few years, and I can remember last year and the year before last and the previous two or three years when we were told by you and Mr. Rogers and others that you could do more with less.

However, we go back to your charts—we can review those if this statement is incorrect—and we find that it is not possible to do more with less. In fact, in 1986 you spent $3.9 billion, but you brought in $35.3 billion.

That is a ratio of approximately ten to one, but that percentage was less than what you brought in in 1984.

Now, we are looking at the 1987 budget, and I have a problem in really understanding whether requests made two or three years ago were the gospel truth, or whether the request being made this year is based on actual need.

I want to believe that what you are telling us today is something of great importance. It has to do with an urgent matter that you are dealing with.

My question is what kind of argument can I make before the House in justifying this request considering the fact that in previous years the request has been made for reduction, and has justified that reduction by saying we can do more with less?

Mr. EGGER. I believe the statement, more with less, was then a true statement, and I think today it is true, but it depends on where you are looking, at which activity you are looking.

Mr. ROYBAL. You mean you can produce more revenue with less employees?

Mr. EGGER. No, sir, not more revenues. On the other hand, with our automated collection system, for example, we have collected more dollars. We have closed more accounts.

Mr. ROYBAL. Mr. Egger, you don't have an automated system at the moment.

Mr. EGGER. No, sir.

Mr. ROYBAL. Because if you did have—

Mr. EGGER. No, sir, I was referring to the automated collection system.

Mr. ROYBAL. But if you had everything automated, everything would have been in order up to now. You have not been able to return funds to people promptly. Those things are not operating properly, so something is wrong somewhere.

Mr. EGGER. There is no question about it. Returns processing has been the stepchild of this agency in the sense of funding, and as I explained this morning, we went too far in terms of trying to cut funding in that area.

I believe that we are now, perhaps, painfully aware that those reductions were much more than they should have been.

Mr. ROYBAL. Now, at that time we were advocates of your position, particularly when OMB came before this committee.

Mr. EGGER. Yes, sir.

Mr. ROYBAL. And we were likewise told that you could do more with less, you didn't need any more personnel, everything was fine.

Now, what is OMB going to tell us this time?

Mr. EGGER. I wish I could answer that for sure, Mr. Chairman. I believe OMB will firmly support our position, both with respect to the supplemental and with respect to the 1987 budget.

Mr. ROYBAL. What I really want to know is whether or not you and Mr. Rogers actually sat down with OMB officials and told them these are problems.

Mr. EGGER. Oh, yes.

Mr. ROYBAL. In the past OMB representatives have said well, we agree with them. They may come here and tell us the same thing they told us last year and the year before and the year before that.

Mr. EGGER. Both Mr. Rogers and I and Deputy Secretary Darman have had direct personal meetings with OMB on both of these, and let me assure you that they understand and they are fully supportive.

Mr. ROYBAL. We will take that to be a fact, and we will see what OMB does say when they come before this committee.

Mr. EGGER. Yes.

REVENUE INITIATIVE

Mr. ROYBAL. I would like to have an explanation in some detail, if possible, with regard to the new revenue initiative. My understanding is that it means an expenditure of $97 million and 2,777 positions, is that correct?

Mr. EGGER. It is 2,500 positions and $94.4 million.

Mr. ROYBAL. Twenty-five hundred positions.

Mr. EGGER. Right.

Mr. ROYBAL. If that is done, it is estimated that $10 billion will come into the Treasury, is that correct?

Mr. EGGER. By 1991, yes, sir.

Mr. ROYBAL. 1991. Of course, it takes some time for that to develop, by training new personnel, etc.

Mr. EGGER. Yes, sir.

Mr. ROYBAL. How many new employees would you have to have in 1987-1988?

Mr. EGGER. Our plan is to increase the examination activity by 2,500 positions in each of three years, 1987, 1988, 1989.

Mr. ROYBAL. So, we are talking about——

Mr. EGGER. Seventy-five hundred, all together.

Mr. ROYBAL. Seventy-five hundred total.

Mr. EGGER. Yes, sir, in examination.

Mr. ROYBAL. Yes, but that is not all the personnel.

Mr. EGGER. That is correct.

Mr. ROYBAL. Can you give us in detail what other personnel you will have and where they will be assigned?

Mr. TAYLOR. There will be additional follow-through positions, Mr. Chairman, in counsel and some in the collection function to follow up on some delinquent accounts related to this.

I don't have the exact numbers with me, but we can provide those for the record.

Mr. EGGER. Let us give you those details, and we will do that immediately.

Mr. ROYBAL. What about any new positions for the audit division?

Mr. TAYLOR. That is the examination division.

Mr. EGGER. Twenty-five hundred new positions in audit or examination each year for three years. All of those go into that function.

Mr. ROYBAL. You will no doubt have a great deal of planning to do for this. It also takes additional funds to put it in place.

Mr. EGGER. Yes, sir.

Mr. ROYBAL. The end result will be that IRS and the Treasury will be the beneficiary of a ratio of ten to one.

Mr. EGGER. Right.

Mr. ROYBAL. That is, for every dollar spent you will be able to bring into the Treasury ten dollars.

Mr. EGGER. Yes, sir.

Mr. ROYBAL. The same thing was true last year, was it not?

Mr. EGGER. Yes, sir.

Mr. ROYBAL. And the year before that.

Mr. EGGER. Yes.

Mr. ROYBAL. And the year before that.

Mr. EGGER. In my opinion——

Mr. ROYBAL. That is when we were told before this committee that wasn't so. We didn't believe it, because we always felt that IRS should be treated a little bit better than it has been.

Mr. EGGER. Right.

Mr. ROYBAL. If we had been successful in everything we tried to do we wouldn't be discussing this particular situation at this time.

Mr. EGGER. Right.

Mr. ROYBAL. However, it is already done, and the next thing is how can we work together to make some changes and see to it that you get money and personnel to do the job correctly.

Mr. EGGER. Yes, sir.

FY 1986 APPROPRIATIONS

Mr. ROYBAL. I am sure you want to do that right along. As I think I told you one time, I felt that your heart was not in what you were telling me last year.

Mr. EGGER. Mr. Chairman, I have never made a secret of the fact that I have not believed our audit coverage was adequate, neither publicly nor in any other way, and last year I told you that Mr. Stockman said that he agreed with my conclusions, but that it was essential to maintain a flat budget for fiscal year 1986, and if he let one agency in, he would have to let others.

Mr. ROYBAL. Even though we are going to lose $10 billion.

Mr. EGGER. I can only tell you what he said to me.

Mr. ROYBAL. I, of course, don't agree with that.

Mr. HOYER. On the domestic side a flat budget.

Mr. EGGER. That is correct.

Mr. HOYER. On the domestic side.

Mr. EGGER. Right.

Mr. HOYER. We certainly wouldn't want to have a flat budget. The Russians would probably be sitting with us.

Mr. ROYBAL. We are not going to have a flat budget, apparently. Anyway, the decision today is one that is of great concern, and I think we have to look at it very carefully and work together to fix it as much as we possibly can.

Mr. EGGER. Mr. Chairman, I am a believer in the adage that out of adversity often comes opportunity, and I think perhaps everyone has learned a great deal from some of the difficulties we went through last year. I certainly did.

Mr. ROYBAL. Adversity sometimes is a result of an act of providence. This was not.

Mr. EGGER. No, this was not an act of providence.

Mr. ROYBAL. I don't really want to tell you what it was, but I think you can read my mind.

Mr. EGGER. Yes, sir.

Mr. ROYBAL. Mr. Skeen.

ADEQUACY OF IRS BUDGET

Mr. SKEEN. Mr. Rogers and Mr. Egger, are you both happy with this budget that you have now, and is this the amount that is going to be necessary to get the job done this year?

I am assuming that we are cleared with OMB, with the ramifications of Gramm-Rudman.

Mr. ROGERS. I would say, in terms of the Department's position, we are very happy with this budget.

Mr. SKEEN. With the $611 million?

GRAMM-RUDMAN-HOLLINGS

Mr. ROGERS. And strongly support it. In terms of the Gramm-Rudman reduction, I think you know that the Secretary himself felt that the IRS should be exempted from sequestration, particularly on the basis of the theme of the legislation.

We have always believed that it should have been exempt. Since it was not, our position was, well, we had to protect the compliance initiatives, and it was our feeling that if we did not take that into consideration in terms of supplemental, that we would be losing a substantial amount of revenue.

So, since the time that we have arrived at Treasury and looked at the Service and its problems, we have come to that conclusion, that it should be examined on that basis.

I think the theme of Gramm-Rudman makes IRS's case a little easier to present, and therefore, I think we feel that we have a good case to present, and we really want to do that.

The Chairman feels that a supplemental is going to be very hard to achieve, and I think it is not going to be easy, particularly considering what has happened in the past in terms of the budget levels, however we intend to do everything we can to point out how important it is and to show the impact that there will be on revenues if Congress doesn't approve it.

We estimate that we will probably lose close to $1 billion in revenue, if that supplemental doesn't get approved.

Mr. SKEEN. I agree with your rationale. The concern I have now is that with Gramm-Rudman, are we institutionalizing supplementals for IRS as a regular course of business?

Mr. ROGERS. Let me put it this way. First, the Department's view is that IRS probably should have been exempted from the legislation.

Mr. SKEEN. I agree.

Mr. ROGERS. And I would probably continue to support an exemption for that, particularly considering the other programs that were exempt.

If it comes down to another sequestration in 1987, we would make the case again. In order for us to take the full impact of a reduction in Gramm-Rudman—you have to face the reality—it will result in a loss of revenue. The whole impact of the legislation was to avoid revenue lost, was to reduce the deficit, there is no better way to achieve this than making sure that Service is adequately funded.

TAX GAP

Mr. SKEEN. A $10 return for every dollar spent on IRS is great. I think that is an amazing return, and it is very good. I asked you this question last year, Mr. Egger. How much are we leaving on the table from uncollected revenue. Is it still about $80 billion.

Mr. EGGER. Yes.

Mr. SKEEN. Do you recoup quite a bit of that?

Mr. EGGER. A rather amazingly small percentage of it altogether, and that is because of the parts that slip through.

Mr. SKEEN. Is it $38 billion?

Mr. EGGER. The $38 billion represents part of the tax gap which would have been in there but for our enforcement actions, but as I say, that $38 billion doesn't represent that tax gap in one year.

That covers a period of maybe five years. We are getting bits and pieces.

INTERAPPROPRIATION TRANSFER AUTHORITY

Mr. SKEEN. That makes it clear to me. You are asking for a transfer authority in IRS accounts from one percent to five percent, and that seems to be an awfully high percentage increase.

Are we having problems with the one percent?

Mr. EGGER. One percent didn't give us the flexibility that we had to have last year in terms of trying to respond to a moderate crisis management situation in which it was essential for us to divert resources.

Mr. SKEEN. So, you lost a lot of flexibility and a lot of options.

Mr. EGGER. Yes, sir, and we believe that certainly something more than one percent across the board should be provided in order to permit us to manage the system based on what the circumstances are at the time.

UNOBLIGATED BALANCE

Mr. SKEEN. You had a $35.3 million unobligated balance?

Mr. EGGER. That is merely funds which are committed but which aren't obligated in a contractual sense yet, but they are definitely committed in terms——

Mr. SKEEN. So, it is not high, not an abnormality of any kind.

Mr. EGGER. No. As a matter of fact, it is of great help for us to be able to have the flexibility of timing with respect to letting contracts and so on.

TAXPAYER SERVICE

Mr. SKEEN. How do you measure taxpayer service performance of the IRS?

Mr. EGGER. We measure a lot in terms of level of service on our telephones, in terms of the volume of walk-in service—that is the number of taxpayers that we see in our offices on an annual basis—and so on.

Mr. SKEEN. Your chart shows that that has been increasing.

Mr. EGGER. Yes, sir.

PAYMENT OF TRAVEL EXPENSES IN EMERGENCY

Mr. SKEEN. You are asking for some travel expense for overseas operations. How extensive is that part of your budget?

Mr. TAYLOR. This is for home travel for families affected by emergencies.

Mr. SKEEN. Yes, but overseas assignments for IRS.

Mr. EGGER. Yes. We have about 16 locations around the world, where we have revenue service departments.

Mr. SKEEN. How many people does that involve?

Mr. OWENS. Thirty-five to forty.

Mr. SKEEN. That doesn't include families or anything. That is just straight personnel.

Mr. EGGER. Our employees, yes, sir.

Mr. OWENS. Let me just add one point there. I don't know whether it was clear. The language we are asking for in this is to cover in case of emergency, the family members' travel. On one occasion we did have where an employee was killed.

Mr. SKEEN. They die or are critically ill.

Mr. OWENS. And we could not pay the spouse transportation over one time, even to the funeral.

Mr. EGGER. We had one of our revenue service representatives die in a hotel fire in the Philippines, and we couldn't do anything.

Mr. SKEEN. Because you had no authority.

Mr. OWENS. That is right.

Mr. SKEEN. That is what you are seeking now.

Mr. EGGER. Yes.

Mr. SKEEN. Thank you very much.

Thank you, Mr. Chairman.

Mr. ROYBAL. Mr. Hoyer.

STAFFING LEVELS

Mr. HOYER. What was the level of employees you asked for in fiscal year 1986?

Mr. TAYLOR. The continuing resolution currently authorized——

Mr. COLEMAN. Eighty-six thousand forty-nine——

Mr. HOYER. The reason I am asking that, Mr. Rogers, on the second page of your statement you say a total of fiscal year 1987 request is $4.098 million and 95,084 positions, an increase of $272

million and 1,360 positions over the level requested in fiscal year 1986.

How many were requested in your budget for fiscal year 1986?

Mr. ROGERS. Ninety-three thousand seven hundred and twenty-four.

Mr. HOYER. My question is, as I understand your supplemental, the effect of your supplemental will be to add 6,950 employees.

Mr. EGGER. Right. We started with 86,774 average positions under the continuing resolution as passed by Congress.

The supplemental will add 6,950. Then we add the 1,360 and we come up to 95,084.

Mr. HOYER. What is that figure?

Mr. ROGERS. The 93,724 figure is my count, the proposed level for FY 1986.

Mr. HOYER. My point being that actually, Mr. Rogers, the level requested for fiscal year 1986 was 86,000 and you are asking for almost 9,000 over that.

Mr. EGGER. Excuse me.

Mr. Hoyer. Am I correct?

Mr. ROGERS. Yes.

Mr. HOYER. Let me ask you, if that is the case, how many employees were asked for absent reimbursibles in 1986? Was that the 86,774, and what does that relate to in fiscal year 1987 in terms absent reimbursement?

Mr. TAYLOR. It is a change to the 1987 level, Congressman, of 8,310.

Mr. HOYER. I was confused by that.

Mr. ROGERS. We can provide a detail of the FY 1986 changes.

[The information follows:]

INTERNAL REVENUE SERVICE

[FY 1986 and FY 1987 FTE levels]

	Direct	Reimbursements	Total
FY 1986 President's budget	86,489	742	87,231
Congressional increase	+285	+35	+320
FY 1986 continuing resolution	86,774	777	87,551
Supplemental request	+6,950	0	+6,950
FY 1986 revised request	93,724	777	94,501
Proposed 1987 changes	+1,360	−14	+1,346
FY 1987 President's budget	95,084	763	95,847

Mr. COLEMAN. Will the gentleman yield for just a second.

Mr. HOYER. I will be glad to yield to my friend from Texas.

Mr. COLEMAN. That is not the request. That is in the continuing resolution, 86,774. I don't want to confuse that issue. The President's request in 1986 was different than that.

Mr. EGGER. That is correct.

Mr. HOYER. What was——

Mr. COLEMAN. I got 86,489 for the fiscal year 1986 request from the President of the United States, is that correct?

Mr. HOYER. Eighty-six thousand four hundred and eighty-nine.

Mr. TAYLOR. The difference was the additional staffing made available in the add-on that Congress provided to that request of some $31 million.

Mr. HOYER. What we are trying to get is asked for as opposed to—because that is what Mr. Rogers——

Mr. ROGERS. That is right. Those additional numbers beyond that supplemental, that $31 million, was at the request of the Department to this committee.

Mr. HOYER. Of the Department?

Mr. ROGERS. Yes.

Mr. HOYER. I understand.

Mr. ROGERS. We negotiated. That was one-half the supplemental that was added to another.

DIRECT ENFORCEMENT REVENUE

Mr. HOYER. Mr. Rogers, still dealing with your statement, let me go to page four, the second paragraph. You say that through direct enforcement activities, "IRS will add an estimated $41 billion to deficit reduction efforts in fiscal year 1987."

Mr. ROGERS. Right.

Mr. HOYER. That sounds good, and we would all be ecstatic. Does that actually mean—and I will take as a figure—that the deficit is $200 billion, but if it weren't for enforcement activities, it would be $241 billion?

Mr. ROGERS. That $41 billion is the revenue that results from direct compliance and other program efforts of the IRS, rather than voluntary self-assessment. It is implicitly included in the overall revenue estimates.

Mr. HOYER. The Commissioner pointed out, I think accurately so, that could be claims as old as ten years. In any event, it is revenue, as I understand it.

Mr. ROGERS. Exactly. In addition to that, the difference between the $38 million and the $41 million was over the math verification increases as well as proposed legislation.

Mr. HOYER. Let me get at what you really mean. What do we include in our budget scheme annually as a figure which is a revenue figure offsetting expenditures for this item?

In other words, what I am saying, the point I am getting at, if you read that paragraph, my goodness, IRS will add an estimated $41 billion to the deficit reduction. That gets it from $200 down to $139. We have already met Gramm-Rudman. You don't mean that, obviously, but one could, I think, easily interpret that from what you have said.

Mr. EGGER. No, sir.

Mr. HOYER. The fact is, what you are saying is that is the revenue number.

Mr. ROGERS. The total revenue number.

Mr. HOYER. After you put that number in, as you have consistently over the years, it is 200.

Mr. EGGER. It is included in the revenue estimates, yes, sir.

Mr. HOYER. The Chairman has made the point, as has Mr. Skeen, that we are talking about ten to one or nine to one ratio, that 4.1 to 38.4.

Let me ask you this. You talk about on your chart 869. Does that mean that the $3.1 billion that is projected in 1980 would be——

Mr. EGGER. Something less than that. That is extrapolated to 86 dollars, constant dollars.

Mr. HOYER. What you are trying to do is compare, so when you added $1 billion from 1980 to 1987, you produced, am I correct, about $16.2 billion.

Mr. EGGER. Right.

Mr. HOYER. That is what your figure denotes.

Mr. EGGER. Yes.

Mr. HOYER. You made, Mr. Egger, a statement about getting people—I forgot the phrase you used—bringing people back into the system.

Mr. EGGER. Right.

Mr. HOYER. Governor Dukakis, of course, has talked about that, of Massachusetts. I know you are not too enthusiastic about this process, as I understand it, but I have suggested two ways of getting people back on.

One is the experience that has been used by some states in terms of forgiveness to get them back in the system, find out what they are doing.

Mr. ROGERS. Amnesty.

Mr. HOYER. You don't penalize them for that, but at least you identify them in future for a look-see, I would imagine. That is one of the penalties that may not be a financial one, but you get a closer look from there on in.

The other one was, and I talked to Secretary Regan when he testified before, change the color of the money or the size of the money, and everybody has got to trade in their old money.

In other words, this underground economy $100 billion as you referred to it in your statement, which is, as I understand your response to Mr. Skeen's question, is still $100 billion, notwithstanding the $38 billion.

Mr. EGGER. That is correct.

Mr. HOYER. You are talking about a $100 billion on an annual basis that somehow is not reported, correct?

Mr. EGGER. Right.

Mr. HOYER. That would be what?

Mr. EGGER. That is tax revenues.

Mr. HOYER. That is the trade in dollars not reported, about 20 percent, half a trillion dollars not reported.

Mr. EGGER. It is roughly five time that.

Mr. HOYER. Twenty percent.

Mr. OWENS. It is not just unreported income, but overstated deductions. You would have reported income but the deductions would be overstated, so it would be a little off that.

Mr. EGGER. Four or five times.

Mr. HOYER. The same difference, because even if the deduction is deduction on what your net taxable income is, so it is a half trillion dollars, if you go to 20 percent or use 30 percent, it might be $400 million less.

IRS Budget Needs, FY 1987

	$ Millions
FY 1986 Proposed Level	3,826
Revenue Initiative	+ 94
Tax Shelter Initiative	+ 21
Document Matching Initiative	+ 21
ADP and Systems Modernization	+ 52
Mandatory Costs and Workload Growth	+ 84
FY 1987 Budget Request	4,098

IRS Program Responsibilities, FY 1987

Tax Returns Processed	180 Million
Refunds Issued	80 Million
Information Returns Processed	1 Billion
Total Tax Revenue	$800 Billion
Direct Enforcement Revenue	$ 38 Billion
Taxpayers Assisted	65 Million

Major Partner in Efforts to Combat Organized Crime and Drug Abuse

Mr. EGGER. Understatement of income tax.

Mr. HOYER. Is there any thought being given at all in the Department to an amnesty program where we get the tax revenue? We simply would give up the penalties, as I understand it.

Mr. ROGERS. The Department is looking at a tax amnesty program. They are studying it.

Mr. EGGER. It takes a lot of different forms, but the Department has it under study.

Mr. HOYER. It seems to have been very successful in Massachusetts, at least from what they say.

Mr. EGGER. Right.

Mr. ROGERS. The concern, I think, is that if you established a program, it may have a short-term gain, but a longer term negative effect because there is some likelihood that there will be a decline in voluntary compliance. If you do, for example, as you suggest, have some way of earmarking those people as potential tax violators in the future, they are not going to come forward on an amnesty program with that in mind.

Mr. EGGER. Part of the study will include a fairly in-depth analysis of the results of the state amnesty programs, because in some states, Massachusetts, for example, they coupled the amnesty with a dramatically stepped-up enforcement program, with new laws that put severe penalties in the law for the first time, and a whole host of things. They said, "Okay, these are things that we are about to exercise, and now you may come in and get clear."

I am not sure what we will do. I don't know where we can go from here to dramatically increase our enforcement activities, for example. These are just part of the problems we have to look at.

Mr. HOYER. We are just trying to get current, right?

Mr. EGGER. Yes, sir.

Mr. SKEEN. You are already very dramatic in your penalties anyway.

Mr. EGGER. We try to be.

Mr. HOYER. Thank you, Mr. Chairman.

Mr. ROYBAL. Mr. Lowery.

Mr. LOWERY. Thank you, Mr. Chairman.

IRS SUPPLEMENTALS

I just have three simple, little questions. Are you telling us that you will not be back for a fiscal year 1987 supplemental?

Mr. EGGER. No, sir. I would not say never, because so much depends on a lot of things. For example, we cannot budget on the basis of compensation increase, and so if a compensation increase were to occur next year, obviously we have to get the funds from someplace.

Mr. LOWERY. Short of that, that would be an action of the Congress.

Mr. EGGER. That is simply an example of things that could happen that would cause us to come back with a supplemental.

Mr. LOWERY. What other unforeseeables, other than increased compensation that would take legislative action?

Mr. EGGER. I can't think of anything specific offhand.

Mr. LOWERY. How about members of your staff?

Mr. TAYLOR. Tax legislation would be significant. If the deficit targets were not reached and there was sequestering required, then under the law sequestering is a lockstep on all accounts, and IRS, as Assistant Secretary Rogers was saying, is not exempt from that, and that could precipitate considering a supplemental.

MISSING CURRENCY

Mr. LOWERY. Treasury recently issued a report that there are tens of billions of U.S. currency that is unaccounted for, using OMB and Federal Reserve estimates and the like, tens of billions. What is IRS' response to that study?

Mr. EGGER. I think that is not something we didn't know before. I think we have known that there are huge amounts of currency out there. We track a lot of those into the offshore transactions that we run across almost daily. We see it in our drug enforcement activities and in the organized crime activities. That is the reason why the Congress enacted the rule which now requires reporting on purchases over $10,000 as well as deposits of currency in financial institutions, things of that kind, so I think the answer is that we are sort of targeting our own activities toward that.

The difficulty is that we are stymied by the so-called Bank Secrecy Act in the Caribbean and in foreign countries, where we cannot get information about who has what dollars.

Mr. LOWERY. Currency in, say, deposit boxes.

Mr. EGGER. The same thing. I am sure they are there. There is a very large currency economy, if you will, in this country and elsewhere in the world. We know it goes on. That is the reason for the third-party reporting requirement.

Mr. LOWERY. How much of it is underworld criminal activity?

Mr. EGGER. I simply don't know the answer to that, and I doubt anyone does. When we did our tax gap study using 1979 data, we had an outside contractor come in and assist us in estimating how much of the tax gap was attributable to illegal activities as against legal activities, but simply unreported or untaxed income. Then they came up with $9 billion, and I just know that is too low. We can tell that by just looking at the amounts of money we see in the money laundering activities under our investigation.

Mr. LOWERY. Do you have proposed solutions for dealing with this huge amount of unaccounted for currency?

Mr. EGGER. I do not have at the moment. We believe that the reporting requirements, if they are properly enforced, will help us identify a good deal of that, but it takes both enforcement on the reporting side as well as enforcement on the receiving side, in order to do that. We are trying to do some fairly imaginative things with states, for example.

To give you one for instance, we have worked out with five states a joint effort to identify excise tax returns that we can look at. We identified 25 excise tax returns in five states, five in each state, and with the assistance of states' data bases we have assessed an average of $11,000 per return. These are quarterly returns, $11,000 per return. Our average prior to that was about $800 per return, so we are looking at brand-new ways to get at this kind of under re-

porting, working with states, working with other agencies and so on.

NATIONAL SALES TAX

Mr. LOWERY. Have you looked at what impact a national sales tax would have on this whole underground economy, and how it can be used to identify unreported income?

Mr. EGGER. We didn't look at it from that standpoint. When the first Treasury study on tax reform was done, we did look at both a value-added and a national sales tax, and concluded not to recommend those to the President at this time, due in large part to the nature of the tax, but also due to the very, very costly administration of a tax of that sort.

Mr. LOWERY. If it were tied into existing state collection methods? They don't use the same baseline, but about four states have it.

Mr. EGGER. I am sure those are options. On the other hand, the states might feel that that is kind of a prerogative of the state governments that we are now once again interfering with. There are a lot of practical problems in going to a national sales tax.

TAX RETURN PROCESSING

Mr. LOWERY. There is much we do at the Federal level that the states consider to be interference. The press has reported lost returns and computer returns and minor computer problems last year. What has happened to all of that?

Mr. EGGER. They were not minor and they were not a few. They were a lot, something in the range of one percent of the returns were delayed in terms of refunds.

Mr. LOWERY. What was the cost of that? Has that been quantified?

Mr. EGGER. We haven't totally quantified it. The cost in terms of interest is in the range of, I think, around $16 million, something of that sort. The overtime, I have forgotten what that amounts to, but even there the interest cost has to be traded off against the fact that the Treasury had the money that much longer, and therefore there was an offset in terms of how much additional funds the Treasury would have had to borrow and things of that kind, which we have not attempted to——

Mr. LOWERY. Do you know the gross payments in interest?

Mr. EGGER. The gross payments in interest was around $47 million, $45.7 million.

Mr. LOWERY. Do you feel, and I know the problems weren't minor, they were massive, do you feel that corrective action has been taken so we won't have it this season?

Mr. EGGER. Yes, sir, I am quite pleased with the progress we have made so far. The only real negative that I have seen in the filing season to date is a continuation in the trend of later and later filing, creating a huge bulge for us in that April 15 timetable.

In 1985, we received at about this time something like 5 million returns fewer than the year before that. We are a little better off this year. It is down around 2 million, and as of the end of last week down about 1.6 million, so we are catching up, but we are processing those returns at a rate nearly double last year.

The refunds are going out at very, very high levels. We are experiencing fewer returns going off into error correction and things of that kind. I am, at the moment, quite satisfied.

Mr. LOWERY. What percent of extensions do you have beyond the April 15 deadline in rough terms?

Mr. EGGER. I will just have to give you that information, Mr. Lowery. I don't know what it is. There are a lot of returns.

Mr. LOWERY. Ten percent, fifteen percent, three?

Mr. EGGER. We will just have to give it to you.

Mr. LOWERY. Thank you.

Thank you, Mr. Chairman.

[The information to be furnished follows:]

PERCENT OF EXTENSIONS TO FILE

During FY 1985, 4,036,952 individual taxpayers requested automatic four-month extensions on Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. In total, 99.704,246 individual income tax returns were filed. Thus, around four percent of individual taxpayers filed for automatic extensions. In addition, 929,692 of the 4,036,952 individual taxpayers filed Form 2688, Application for Extension of Time to File U.S. Individual Income Tax Return, which requests an additional two-month delay.

Mr. ROYBAL. Mr. Coleman?

UNDOCUMENTED WORKERS

Mr. COLEMAN. I appreciate, Commissioner, your efforts last year in trying to help the conferees to agree to the House version. I think you have had the foresight as the chairman of this committee in suggesting that IRS is going to need additional people. We all, as I think was pointed out earlier this morning by the chairman, are well aware of some of the problems.

I mentioned this last year, and we didn't have an opportunity to even debate any legislation dealing with the immigration law, but I mentioned it last year and we never got there and so I didn't call on you. As I understand it, we may take up the issue in the House later this year.

I am totally convinced that that is the answer to one of Congressman Lowery's questions about where the dollars are. Some of it I would point out, has to be part of what we do in the United States in terms of paying undocumented workers, because if it is $1.00 an hour, there is no withholding, there is no minimum wage issue, there is no social security. I have always questioned that one transaction of payment, and what happens to the tax collection. I am convinced we don't have the enforcement personnel to even begin to work on the problem yet. It is for that reason one of my amendments to the immigration bill that we considered in the House in 1984, concerns the IRS actually enforcing law on matters of this kind.

I would hope that in any immigration legislation that the House considers will provide the IRS with that capability to deal with issues of that kind. I am convinced it is not a small number of dollars. In my district, I am convinced there are people being paid wages where there are no taxes being paid, when in fact in my view there should be.

I would hope that we are able to reach that stage where I can meet with the people in your office to go over an amendment of that kind.

GRAMM-RUDMAN-HOLLINGS

There was only one question I had, Mr. Chairman, relative to a very early statement that was made. In the justifications in terms of the 1987 budget Mr. Secretary, you state that the IRS will take a reduction of $156 million or $157 million, as a result of the Gramm-Rudman-Hollings budget cuts in March, and yet no staff will be cut.

You pointed out that you were going to be able to administratively deal with that cut. Was that essentially your statement?

Mr. ROGERS. That is right. It is our hope that we can accomplish the reduction without any staff decreases. Now, of course, with the supplemental increase, I think you really end up with an offset to the full Gramm-Rudman reduction by nature, and I think the amount that we are really talking about then, $30 million or whatever it comes to, is much more and it can be accomplished without it. I know the Commissioner has talked about the possibility of restricting hiring, selective hiring, but it is our hope that we won't have to go to that extreme.

Mr. EGGER. We have already done that, Mr. Coleman. We already have instructions out to put a hiring freeze on with certain exceptions to do with returns processing and certain enforcement activities and so on, to freeze, cut back on travel, cut back on this, that and the other thing to achieve savings.

Mr. LOWERY. But basically though that $157 million cut, the expectation is that much of that will be made up for in the supplemental.

Mr. EGGER. Yes.

Mr. HOYER. All of it?

Mr. EGGER. No, not all of it.

Mr. ROGERS. Not all of it, no.

Mr. COLEMAN. The selective hiring, I understand. If the supplemental is delayed, if it is delayed until this summer, say July, will you then have to be taking more drastic action up until that time?

Mr. EGGER. Yes, sir.

Mr. HOYER. Will you yield?

Mr. COLEMAN. Yes, I yield.

Mr. HOYER. I am not sure I understand. You are asking for $340 million on the supplemental. We talked about $170 million additional, $170 million and $156 million is $14 million less than $340 million. That was the chairman's point a little earlier. Am I not correct? In effect, we are restoring the $156 million and giving you $174 million supplemental; is that correct?

Mr. TAYLOR. In terms of broad numbers, yes.

Mr. ROGERS. I am looking at it from the point of revenue protection.

Mr. HOYER. The way you spend it.

Mr. EGGER. Yes, and what our needs are beyond Gramm-Rudman. Gramm-Rudman aside, our needs specifically that we are

requesting in 1986 to correct the deficiencies of last filing season and in my opinion of the previous years.

Mr. COLEMAN. And also you are looking at where you can make savings?

Mr. EGGER. Of course, but I mean in terms of the broad context in which you presented it, there is definitely an offsetting reduction of $156 million. I am looking at it a little differently.

Mr. HOYER. If the gentleman will yield again, what I understand in terms of cutting back, Gramm-Rudman, if you go to June or July and you haven't gotten your supplemental, you have got a problem in terms of planning that last quarter. If you got it early, however, would you need to freeze positions?

Mr. EGGER. Yes, I think we would anyway, and the reason for that is that since our budget process, including the supplemental, has gone forward this year, which was last summer literally, we have run into the need to employ additional resources for the purpose of trying to bring down our inventories, for the purpose of trying to complete the processing and in effect wrap up a lot of the problems of last year, more resources than we had anticipated initially in the first quarter of fiscal year 1986.

Mr. HOYER. I thank the gentleman for yielding.

REVENUE-PRODUCING AGENCIES

Mr. COLEMAN. I have one other question relative to the idea of exempting the revenue-producing agencies from Gramm-Rudman and that concept. On this committee we deal with the two greatest revenue-producing agencies of the government. Treasury, I hope, would take the position that Customs has got to be a part of such a concept. I hope there is nothing lost on the concept of Customs as a revenue producer.

Mr. ROGERS. No, but I don't think there exists analytically the same basis to make that determination that exists for the Internal Revenue Service. There is a much better case to be made. Now I do think that without any question on the commercial side of Customs, and I know we have a hearing coming up and I am sure we will get into it, that I do believe that the user fees that are proposed for cost recovery makes sense as long as they are tied to services, because they are revenue-producing agencies, and therefore it should directly relate.

I am not quite sure the Department would be willing to go to that extent, to include Customs. I just can't say that at this point.

Mr. COLEMAN. I hope you would look at it for the reason that it is hard to separate all of the revenue producing by the mere fact that somebody stopped and in fact investigations are oftentimes made of the product that is in commerce. It is hard for me to separate in my own mind actual law enforcement from strictly revenue producing. They both take place at the same instant, so I would hope the Department, if you are making such proposals, would certainly consider that agency really in its entirety. I don't think you can make the case that Customs is not part of our revenue producing efforts.

Mr. ROGERS. Certainly. I would tell you from my position I believe the Service is very sophisticated in terms of the models for

projecting the impact of certain enforcement activites as they correspond to revenue. We have to do a lot more work in Customs on that, and I think the Commissioner will tell you that. I think it is the Department's feeling.

To make a better case in the case of certain impacts, the impact that Gramm-Rudman might have on revenues.

Mr. COLEMAN. The textile bill passed the Congress, but the President vetoed it. You can use that as an example of lost revenues. All I am saying is I hope you will look at it and we can work out those kinds of issues. I must say I have been impressed as a member of this committee with the quality of people you have in Customs. I don't think it should be all that difficult to make the case of the agency as a revenue product.

Mr. ROGERS. I want to work on making a better case frankly for Customs. I will say that since I left the White House and have come to the Department of Treasury, I, too, am extremely impressed with the caliber of the individuals there, not only in this bureau, but in the United States Customs Service.

Mr. COLEMAN. Thank you.

Thank you very much, Mr. Chairman.

Mr. ROYBAL. Mr. Akaka.

Mr. AKAKA. Thank you very much, Mr. Chairman.

Mr. Commissioner, I know we are focusing on fiscal year 1987.

Mr. EGGER. Yes.

FISCAL YEAR 1986 SUPPLEMENTAL

Mr. AKAKA. But I would like to just step back to fiscal year 1986 supplemental.

Mr. EGGER. Yes.

Mr. AKAKA. Repeating again the concern of the chairman about the passage of the supplemental, as he did mention earlier, in the past 3 years, the earliest a supplemental has been signed by the President was the 30th of July, and others in August, and the difficulty we would be with Contra aid as a possible amendment on the general supplemental we may face some problems. My concern, knowing that you are spending money faster than the continuing resolution provides——

Mr. EGGER. Right.

Mr. AKAKA. And knowing that you are anticipating the passage of the supplemental, my question is when do you think you will come to a point where you might have to issue deficiency notices?

Mr. EGGER. We have a request currently pending with OMB, and I am strongly urging that that come on over here, and so that action has already been taken by me and by the Treasury Department. I would expect that they would act on that in the near term.

Given that that notice comes over here to the Speaker, as it should, then I think we will be working to try to get an indication from this committee as well as other parts of the appropriations process and the leadership in the House as to the response to this request. If it appears that it is not going to happen, or if it is going to get cut way back or something of that sort, then we will have no choice except to take whatever action is called for at the time.

If that means cutting back first on enforcement, that will cost revenue, and then obviously if we have to do that, there will come a point where we will also have to take the same action on returns processing and taxpayer service and so on. All of us hope that that does not happen, because frankly the taxpayers of this country deserve better than that, but we will obviously have to act in accordance with the law as it is.

TAXPAYER SERVICE

Mr. AKAKA. One of my questions was going to be on taxpayer services. I guess this also depends on what condition you are in at that given time.

Mr. EGGER. We have increased the number of people available for our toll-free telephone system this year by something like 700 additional assisters in the system. We believe that although every taxpayer can't get into the system on the first call the system is at the level this year that provides an adequate and responsive level of service to the taxpayers. We are urging, for example, in the press that people try to call us at off-peak hours, things of that kind, to make it easier to get into the system, and things of that sort, but if we have to cut back on that, it will squeeze us down.

DESTRUCTION OF TAX RETURNS

Mr. AKAKA. It was reported by our survey and investigations staff that tax returns were destroyed, I think it was, in Austin, Texas. Were there any other centers where these returns were also destroyed?

Mr. EGGER. Yes.

Let me take you back into a little bit of history on this, if I may.

Back in March of last year, there was an allegation, I think, in The Philadelphia Inquirer that some 20,000 tax returns had been shredded or destroyed or something of that sort. We immediately put all of our efforts into an investigation of that allegation, and at the same time I asked each of the regional commissioners to list for me any incidents of that type that had been identified and so on.

Even though we have investigated that Philadelphia story now 14 ways from Sunday and so has the GAO and so have your investigators and all the others, we have yet to find any evidence of any such mass destruction.

In the course of all of these losses, we have found instances, one in Massachusetts and I think one other place where returns themselves were either done away with or inadvertantly destroyed, but the bulk of the things that we uncovered were not tax returns as such, but were some taxpayer correspondence.

There were instances where we closed the file without notifying the taxpayer, things of that kind, but almost all of it was over a period of years, not just last year, and I think out of the eight or so instances that were brought to light, only two of them occurred in 1985, the rest were in some prior years going all the way back to 1981, I think.

We, of course, take that extremely seriously when those allegations come forward, because any breakdown in the integrity of the system or the people in it carries implications with it which we

cannot abide, and so we looked deeply and seriously into every one of them.

In every case we have found either people were not following the rules, in which case they have been dealt with in a variety of ways, anything from suspension to dismissal, in some cases prosecution, but we know of no instances where we just sort of let it happen.

We dealt with it as severely as we could under the circumstances.

Mr. AKAKA. What steps have you taken to correct this or improve this situation?

Mr. EGGER. To begin with, I mentioned this morning that our span of control had reached the point in some activities in the centers where one person was trying to supervise, 30, 40, and in one case I think even 60 employees. We are changing that, so that we bring in more supervision so that there can be a much more involved relationship between the first-line supervisor and the employees.

We are also putting everybody through a quality training, so that people become aware of the need to pay attention to what they do, become aware of the implications of what they do on what others do, and on the taxpayers. We are instituting controls of a sort that were not heretofore in place, and doing a number of similar-type things in each of the centers, all in an effort to maintain a much stricter control over the paper documents as they go through, over the correspondence as it comes in, and so on, to try to head that sort of thing off.

PROCESSING BACKLOGS

Mr. AKAKA. There also have been some backlogs in some of the centers. How is this presently and how have you taken care of this?

Mr. EGGER. Yes. What we have done in all of the centers is we have put additional personnel to work in bringing down those inventories. In the case of the correspondence adjustment-type cases, we have in effect farmed those out to the districts served by that service center, to get assistance from the districts in closing those cases. We have been taking the centers that didn't have such large inventories, and stretching phone lines from them to centers that needed assistance, so that in effect we have, for example, Kansas City assisting in closing cases in Atlanta.

We have Cincinnati close cases for Philadelphia, things of that kind, so we are taking steps which are all a big plus, because they now are bringing the centers into the posture where they want to help each other, rather than in the competitive situation that they were in just a few years ago. I think it is all very, very positive.

INTEREST PAYMENTS

Mr. AKAKA. I am sure because of the delays IRS had to pay some of these taxpayers. How much interest did you really pay from that?

Mr. EGGER. Yes. Through December 27, 1985, we paid out in total approximately $49.5 million in interest on timely filed returns as against about $28.9 million in the prior year. We will always have fairly significant interest payments to make, because we are reach-

ing the point where we are getting something close to one-half of the individual income tax returns received during the filing season within five weeks of the April 15 due date. So, clearly we simply cannot staff up or gear up to handle that kind of volume, so the 45-day processing period is going to expire on some returns.

Our hope is that we can encourage people, particularly people with refund returns, to file as early as possible, thus permitting us to minimize that. We will always have some of it.

Last year because of the very late start, we had more of it than was the case in the prior years.

Mr. AKAKA. Thank you very much.

Thank you, Mr. Chairman.

Mr. ROYBAL. Thank you, Mr. Akaka.

Mr. Egger, this has been a very fruitful discussion, and it is something that this committee, of course, will take under consideration, and hope that we can make a recommendation that you will be in favor of.

Mr. EGGER. We certainly hope so, Mr. Chairman.

ORGANIZED CRIME AND DRUG ENFORCEMENT

Mr. ROYBAL. I am interested in just one other thing, and that is your statement that IRS is a major partner in the prevention of crime and drug abuse.

Mr. EGGER. Yes.

Mr. ROYBAL. We on this committee know that Customs is definitely in the front line in the interdiction of narcotics. We know Alcohol, Tobacco and Firearms is also committed to some drug-related activities. Can you elaborate a little bit more on that statement. Tell us what you do in that regard.

Mr. EGGER. I would be glad to and then I would like to call on our criminal investigation people to elaborate on it.

Mr. ROYBAL. I ask that question, Mr. Egger, because to me this is the most important subject matter. I firmly believe that we as a nation are providing nothing but lip service when it comes to the interdiction of narcotics, because that junk is going into every school in the United States, I think it just undermines the moral fiber of the nation.

Mr. EGGER. I agree with you.

Mr. ROYBAL. Can you elaborate on this?

Mr. EGGER. Yes.

Let me give you some idea. For example, in the fiscal year 1987 program, this is just in the narcotics field alone, we expect to employ some 1,347 positions at a cost of about $61 million in the investigation of activities in the narcotics trafficking area. Many of these investigations involve violations of Title XXXI, that is money laundering, as well, of course, as those things which follow from this activity from routine examinations which give rise to the probability that there is some illegal activity going on.

As I mentioned before, we have something over 100 people in South Florida alone in the Operation Greenback. We are the largest agency involved in that effort in the United States Government. We have more people in it than any other agency, and I have said, and I firmly believe, that we will never stop the drug

trafficking in this country by simply chasing down airplanes. We will only stop it if we get at the money, and financial investigations are the things that we are good at.

In fact, we are about the only one in the business that does that kind of financial investigation. We, in effect, pick up where Customs leaves off, and so we are a very good concomitant to the efforts be made by Customs, by DEA, by FBI and so on.

We have been a part of the South Florida Task Force from the time it started. We are a part of the task forces all over the country. Of the total Treasury effort, our activities constitute 57 percent of it, so we are more than half of the total Treasury effort, including Customs and all the rest of the things that Treasury does.

I think, Mr. Chairman, that the role of the IRS is oftentimes downplayed and I am not quite sure why that is so, but I have to tell you that occasionally our criminal investigators and other people who are involved in these activities get sort of upset with me, because I haven't found a way to make sure the people understand what their role is as well as that of other agencies in the government.

I would be glad to provide any other activity. Mr. Phillip Coates here is the Associate Commissioner of Operations, and under his supervision comes criminal investigation.

I would like to ask him if he would like to elaborate using some examples.

Mr. COATES. There isn't a whole lot more I can add, Commissioner, except that we have, Mr. Chairman, had two of our senior criminal investigation people assigned to the President's Crime Commission during the past 2-1/2 years, and some of the statistics from our criminal investigation operations in the drug area just during the year just past, we initiated some 1,496 investigations in the drug area. We recommended prosecution in something over 1,000, 1,024 cases.

We have over 1,200 cases currently in our inventory, and so as the Commissioner pointed out, we are very interested in this whole area.

Mr. ROYBAL. Will you provide for the record then background information that tells this committee what it is that you have accomplished in this area, in the investigation of trafficking of narcotics, the laundering of money, and whatever other activity you are involved in that deals with crime prevention, particularly, in the areas of drug abuse and interdiction of drugs?

Mr. EGGER. Mr. Chairman, we would be delighted to do that.

[The information follows:]

IRS PARTICIPATION IN NARCOTICS AND OCDETF INVESTIGATIONS

I: Introduction:

I am extremely pleased to have the opportunity to address you today on the role that IRS plays in the area of narcotics related investigations and, in particular, the future of the Organized Crime Drug Enforcement Task Force (OCDETF) program. I will begin by looking at our past performance and then discuss the future direction of our narcotics efforts.

II: IRS participation in narcotics investigations:

A: Historical IRS participation in narcotics cases:

Historically, because of our unique jurisdiction under Title 26 of the Internal Revenue Code, IRS special agents, have been involved in conducting investigations of organized criminals that derive their income from illegal activities. Since the early 1970s, IRS has been actively involved in major multi-agency investigations of narcotics organizations.

We have frequently, however, been in a position where we were unable to share information with other investigative agencies due to the strict disclosure statutes which our agents must work under, ultimately working to the benefit of the criminal element. Fortunately, this is not true in our joint grand jury investigations such as the Organized Crime Drug Enforcement Task Forces. We believe in this multi-agency grand jury approach to narcotics investigations.

Our commitment to the narcotics program has increased each year since FY 1977 when 116 special agent staff years were expended. In FY 1983, 487 special agent staff years were spent in narcotics related investigations, increasing in FY 1984 to 753 special agent staff years and in FY 1985 to 775 special agent staff years. In terms of dollars, the overall IRS budget in narcotics enforcement area has increased as follows: FY 1983, $49.4 million; FY 1984, $56.7 million; FY 1985, $61.7 million, with projections for FY 1986 and FY 1987 of $61.1 million and $61.0 million respectively.

B: IRS Contribution to OCDETFs:

IRS has shown a consistent commitment to the task force program IRS represents over half of the total expended by all Treasury participants (IRS, U.S. Customs Service and the Bureau of Alcohol, Tobacco and Firearms) to the OCDETF program.

One way in which we are able to assess the contribution that the IRS has made to the OCDETF program is by tracking the number of cases we have investigated. Since the beginning of this task force program, through December 31, 1985, IRS has obtained 1051 indictments and/or informations and 657 convictions. It is important to put these figures in perspective, to fully appreciate the significance of IRS to the OCDETF program.

Since the inception of the OCDETF program, IRS has participated in 67.6% of all OCDETF investigations. This level of participation is second only to that of the Drug Enforcement Administration, the nation's primary narcotics enforcement agency. IRS has maintained this high level of involvement in OCDETF investigations even though we were allocated only about 19% of the total investigative agency resources.

IRS has also had a significant impact in areas which can not be appreciated by just looking at statistics. IRS special agents have long been recognized as experts in the area of financial investigations in general and money laundering and income tax investigations in particular. This expertise not only ensures quality tax prosecutions but provides the basis for Continuing Criminal Enterprise (CCE) and Racketeer Influenced and Corrupt Organizations (RICO) charges, forfeitures and in some instances IRS jeopardy and termination assessments.

Our agents are actively involved in supporting the task forces by tracing the flow of funds generated from drug sales. IRS agents not only find assets that were bought with narcotics income; but just as importantly, they find the documentary evidence that ties these assets to the traffickers and their narcotics proceeds. This information is essential for the successful prosecution of the trafficker. IRS agents have been able to substantiate the existence and relative size of a narcotics trafficker's drug business by proving the amount of illegal income that the trafficker earned. This information, documented through third party

"citizen" witnesses, has substantiated the narcotics evidence obtained by DEA and FBI agents and, in many instances, has been sufficient to obtain multi-felony convictions that otherwise would not have been possible.

III: WHAT IRS IS DOING TODAY TO IMPROVE THE OCDETFs

A: STREAMLINED INTERNAL PROCEDURES

In the early stages of the OCDETF program, it became obvious that if the IRS were to participate fully in the task forces, it would be necessary to bring many of our procedures in line with those of other participating agencies. These necessary changes were made by streamlining our grand jury approval process and our prosecution case review procedures. This has cut our average elapsed time from case initiation to indictment to about half that of investigations in other programs. Today, the situation no longer exists where IRS is precluded from participation in joint agency investigations because of lengthy, time consuming review procedures. These changes make it easier for our criminal investigators to initiate and complete task force cases while still working within the framework and spirit of our disclosure laws.

B: CTR PROCESSING:

One of the areas in which IRS has been particularly beneficial to the task forces is with money laundering investigations under the Bank Secrecy Act (Title 31). As you know, the Bank Secrecy Act calls for the filing of Currency Transaction Reports (CTRs) relative to certain currency and monetary transactions.

We have observed a substantial increase in the number of CTR filings over the last few years. In FY 1983, a total of 513,782 CTRs were filed. This increased to a total of 707,246 in FY 1984 and 1,832,000 in FY 1985. This is due to several factors. First, our special agents have made a tremendous effort to educate the banking community as to the requirements of the law. This was done in part by the personal distribution of more than 125,000 posters designed to be placed in the non-public work areas of the banks. IRS special agents have also spoken at gatherings of

bank officials regarding illegal money laundering. The successful prosecution of the Bank of Boston, in February 1985, emphasized the need for self education by the banking industry and had a direct effect on the sudden and tremendous increase in CTR filings.

In February 1984, an American Bankers Association (ABA) research project on money laundering was begun which also involved IRS and the "Operation Greenback" multi-agency government task force. Results of the year long ABA research indicated a need for a program to apprise all financial institutions throughout the country of the problems of money laundering. As a result, a one day video teleconference was developed in 1985 which included Vice President Bush, the Commissioner of the IRS, and members of the banking community.

We anticipate that these and future efforts will go a long way toward educating the banks on the need to comply with the Bank Secrecy Act requirements.

C: EMPHASIS ON THE "ORGANIZATIONAL APPROACH"

One of the reasons that the drug task forces have been so successful is their approach to the drug trafficking problem, broadly attacking the trafficking organizations as an entity. This approach helps to take not only the drugs off the streets, but also the money and assets that the drug sales generate. Prison sentences have been substantial and the depth to which the drug trafficking organizations have been penetrated has either seriously hurt or destroyed them.

This can only be done by the cooperative efforts of all agencies and prosecutors involved. No single agency has the resources and expertise to work major narcotics organizations to the extent that the task forces can. The task forces offer federal law enforcement agencies the unique opportunity to work as team and attack a common problem in unity and force.

One area in which we intend to continue to assist the task forces is in our ability to share both financial and narcotics related information.

We have also utilized other investigative techniques to enhance our efforts in OCDETF investigations. As of the end of FY 1985 IRS had undercover operations in 16 task force investigations.

Although this represents only 7% of our total undercover investigative efforts, the use of undercover operations on drug task force investigations has proven to be an effective technique.

D: Continued Emphasis on the "Financial Approach"

As mentioned earlier, much of the success of the drug task forces has been due to a broad approach to attacking the organized criminal element. This not only includes going after drugs, but also after the financial gains as well.

One way in which IRS has had a good deal of success in identifying and prosecuting narcotics traffickers on tax and money laundering charges has been through the use of multi-agency Financial Investigative Task Forces. These financial task forces take a different approach to identifying narcotics traffickers by first looking at and tracing the funds as opposed to first trying to trace the narcotics. We have found that the Financial Investigative Task Forces frequently identify narcotics dealers that have never been identified before through the tracing of their financial transactions. They may be doctors, lawyers, PHDs, real estate brokers or housewives.

They all have several things in common; they all spend a lot of money, they deal in narcotics or money laundering and they were previously unknown to law enforcement.

We are currently involved in 43 Financial Investigative Task Forces throughout the country. Some are closely connected to their respective drug task forces, while others operate independently. Since they utilize Federal grand juries, disclosure problems for the IRS investigators assigned are lessened. Because of the past successes of the Financial Investigative Task Forces, we will continue to encourage IRS personnel to utilize this technique to identify viable targets for investigation.

During FY 1984, IRS established a Tax Haven Offshore Banking Project. This project was designed to create a single, central location for collecting and disseminating information relative to tax haven countries that specialize in providing "Offshore Banking" for U.S. citizens that would hide their income from the Government. IRS is gathering a great amount of data that we believe will be of benefit in future narcotics and drug task force investigations.

In order to help us analyze the large amount of data that we deal with on a daily basis from such sources as the Financial Investigative Task Forces and the Tax Haven Offshore Banking Project we are making strides in the area of "Artificial Intelligence". Artificial Intelligence is a computer system that performs analytical tasks on huge volumes of data that normally would require the judgment of a skilled technician or professional. The possibilities for the application of artificial intelligence in major complex investigations of multi-state organizations are virtually limitless. We currently are training special agents and other IRS personnel in intensive one year and two year programs to utilize this system.

One final area that IRS is involved in exclusively is in the area of Jeopardy and Termination Assessments. Jeopardy assessments differ from other tax assessments in that at any time after a return is due the IRS may avoid the usual time-consuming procedures and immediately assess and collect the tax if there is an indication that collection may be in jeopardy. Termination assessments are made under the same circumstances before the due date.

It is not currently possible to segregate OCDETF jeopardy and termination assessments from the total jeopardy and termination assessments made by IRS through its overall narcotics program. IRS participation in this area has increased substantially since FY 1976. In that year, jeopardy and termination assessments totaling $7.4 million were made on 104 narcotics related investigations By FY 1983, narcotics related jeopardy and termination assessments were made on 262 cases totaling $68.8 million. This was up in FY 1984 to $118.3 million on 307 cases, and $246.0 million in FY 1985 on 311 cases.

There are several advantages of these assessments in task force cases. They are civil assessments and result in an <u>immediate</u> demand for payment. They provide for seizure of assets of sufficient value to satisfy the subject's tax lien. All other forfeiture laws can reach only property used in illegal activities or obtained with tainted money. Jeopardy and termination assessments, however, can apply to <u>all</u> property owned by the individual regardless of the source of funds used to acquire the property..

Use of these assessments have been so successful, that several drug task forces have full time IRS revenue agents assigned to handle these and other civil

tax assessments, with the remaining task forces utilizing experienced revenue agents on a cases by case basis. I anticipate that we will see even more use of these assessments in the future.

E: **EDUCATION:**

I want to touch briefly on education. For quite a few years now, IRS special agents have participated in various Financial Investigation Techniques training courses throughout the country and will continue to do so in the future. These courses available through the Federal Law Enforcement Training Center in Glynco, Georgia and Criminal Investigation Division offices throughout the country, are designed to create an awareness of financial evidence and how it relates to other criminal activities.

We have all heard estimates that narcotics trafficking in this country earns 60 to 90 billion untaxed dollars a year. Without an adequate budget which will enable us to expend the necessary resources, IRS will have little impact in this area.

I have available several case summaries of significant OCDETF investigations that were submitted for the third annual OCDETF report which I will be glad to share with you today. I also have available a statistical summary of IRS participation in narcotics related investigations.

Thank you.

JEOPARDY AND TERMINATION ASSESSMENT

An integral function of the narcotics program is the utilization of jeopardy and termination assessments.

In June 1984, the Los Angeles, California IRS District made two termination assessments totaling over $28 million against a major Los Angeles narcotics trafficker. The IRS levied against his assets located within the United States, which included monies on deposit at the first City National Bank of El Paso, Texas. When the levy was served, the bank filed an action in an El Paso County, Texas court asking the court to determine whether the funds (approximately $6.5 million) on deposit belonged to IRS, the individual account holder or some other individuals. The action was removed to the U.S. District court in the Western District of Texas.

On December 19, 1985 as the result of actions filed by the IRS, the court ordered the approximately $7.2 million (the original $6.5 million plus about $700,000 accrued interest) be deposited in the United States Treasury to be credited toward the $28 million tax lien.

RAMON MILIAN-RODRIGUEZ

Ramon Milian-Rodriguez, a Miami CPA and member in good standing of the Florida AICPA, was arrested May 5, 1983, by agents assigned to Operation Greenback in Miami. He was held on $25 million bond and indicted on 27 felony charges.

On May 4, while under surveillance by Operation Greenback agents, Milian-Rodriguez loaded his Lear jet at Fort Lauderdale International Airport with approximately 20 boxes which contained $5.4 million in U.S. currency. The aircraft was stopped and an "outbound" search of the plane was conducted. The money was taken into custody by U.S. Customs for violation of Title 31. A consent search of Milian-Rodriguez's office and residence was conducted the same day with the following seizures being made:

- 64 pounds of high grade cocaine
- A loaded and illegal UZI nine millimeter sub-machine gun with lasar scope and numerous other loaded weapons
- Bearer bonds
- $45,000 in counterfeit U.S. Currency, Books and records of his money laundering operation which included in excess of 836 client files which reflected financial activity of clients with foreign corporations and offshore banks, and other illegal activities

° Electronic security equipment valued at over $350,000.

Milian-Rodriguez admitted that he had transported or moved more than $1 billion in U.S. Currency for his clients over the past seven to ten years. He admitted to laundering from $17 to $25 million per month while turning away additional business. He admitted to earning more than $1 million per year as a money exchanger/courier and that many of his clients were large-scale narcotics traffickers.

The 17 count indictment charged Milian-Rodriguez with 10 counts of failing to file CTR's during 1982 and 1983, and other charges. On January 2, 1986, he was sentenced to 35 years in prison and fined $6,490,000.

William Joe Richards and Lynford Roosevelt Evans

Eighteen individuals were indicted on January 9, 1986 on narcotics, conspiracy, income tax and money laundering charges in the Southern Judicial District of California. The leader of the 100 kilo per month cocaine importation ring and his principal money launderer Lynford Roosevelt Evans fled following the indictment and are currently fugitives.

Richards, who was charged with two counts of income tax evasion and conspiracy charges had acquired over $5 million worth of real estate in Florida, Texas, Hawaii and California. He had acquired this property through "shell" corporations established by Evans in the Grand Cayman Islands, Turks and Caicos and the Netherlands Antilles, all tax haven countries.

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THE CLASS REUNION

The defendants in Organized Crime Drug Enforcement Task Force indictments and informations have performed a variety of functions in drug trafficking organizations.

Task Force prosecutions have included the prosecutions of the Top Leaders of organizations and their functionaries, as well as those involved on the periphery of illicit organizations such as enforcers and corrupt public officials. In the following case successfully concluded in 1985, the chief defendant in the marijuana and cocaine trafficking organization performed a variety of functions, including that of top level leader, major financial backer, major money launderer, major supplier or distributor, and key contact to sources.

In the year 2010, when he is 63 years old, Drake A. Williams, a Certified Public Accountant from Santa Fe, New Mexico, will have the opportunity to walk the streets of Santa Fe, Houston, or El Paso, three cities which figured prominently in his rise and fall in the drug world. Raised by a middle-class aunt and uncle in Texas, Williams put himself through college at the University of Texas at El Paso. Williams utilized his education -- he became a Certified Public Accountant at the age of 20 -- to develop and run a sophisticated drug trafficking and money laundering business, the nucleus of which consisted of his twin brother, Vance, an engineer, and numerous other high school and college friends. Thousands of tons of marijuana and hundreds of pounds of cocaine were sold across the nation and millions of narco-dollars were laundered through otherwise legal business enterprises owned or serviced by Drake Williams' accounting firm.

The Williams brothers and their friends quickly became millionaires. Drake Williams put his education in finance to profitable use by laundering his drug-dealing profits through at least three legitimate businesses. One of the businesses was directly controlled by Williams and the other two were Houston businesses which were convinced to launder Williams' drug profits enabling the firms to claim illegal tax deductions. For a decade, the Williams' organization used the best business practices to import, warehouse, distribute, and finance a growing business enterprise.

The trial brought ten members of one of this nation's most successful long-term crime organizations to the Court as defendants representing a new kind of organized criminal into public view. As noted by the prosecutor during the trial, the mobster of the past has been replaced by respectable-appearing businessmen represented by a battery of expensive, talented lawyers. At the Williams' trial, nine of Texas' most prestigious criminal attorneys represented the ten defendants.

The success of the Williams' organization can be measured in the length of time that it successfully operated, distributing untold quantities of illicit drugs. Those successes were

accumulated at a time that the American law enforcement community was concentrating on street distributors and the traditional organized criminal. (Little attention was given to the potential of "honest" businessmen using their talents and resources in the drug trade.) For eleven years, between 1969 and 1980, the Williams' group trafficked in drugs and laundered their profits with impunity. As the Organized Crime Drug Enforcement Task Forces began to explore the modern infra structure of organized drug trafficking, it became more clear that organizations like those of the Williams brothers were a very real phenomenon of the times.

In 1981, Internal Revenue Service investigators began to link the activities of the Williams' organization as they pieced information together. By December 1982, the Government had obtained enough information for minor indictments of five principals in the Williams' organization, but these allegations were for minor tax violations and did not address the drug violations which ultimately were identified. Throughout 1983, the investigation and prosecution of members of the Williams' organization began to bog down because of personnel changes within the Federal Government and because of the rigorous requirements for prosecution of tax violations. Also, as the investigation continued, additional principals were identified. It became apparent that the organization was much larger and of longer standing than initially suspected. It was clear that a new and fresh approach was needed.

By the fall of 1983, the Gulf Coast Organized Crime Drug Enforcement Task Force had been fully staffed and was prepared to experiment with its mission of reaching members of the legitimate business community who had moved into the world of illicit drug trafficking. The Internal Revenue Service assigned agents to the investigation who were familiar with the background of the case. In May 1984, a decision was reached to dismiss the previous indictments and to mount a major effort through the grand jury to totally destroy the entire Williams organization. The Task Force approach permitted investigators and Assistant United States Attorneys to work together to prove the true nature of the continuing criminal nature of the Williams' organization.

The first step was to gather and further develop information concerning narcotics transactions which were in any way related to the Williams' or their associates. Success came in the form of wiretap evidence and other evidence of drug deals which had been obtained by local law enforcement authorities in New Hampshire going as far back as August 1974. At the same time, voluminous business and banking records were subpoenaed by the grand jury and analyzed. Finally, the United States Attorney's office, working in the Task Force mode with the investigatory agencies, granted immunity to selected individuals and compelled their testimony.

By the time of the grand jury's indictment, the Task Force had involved and coordinated the efforts of the Internal Revenue Service, the Drug Enforcement Administration, the United States Customs Service, the New Hampshire State Police, the Culberson County, Texas, Sheriff's office, the Texas Department of Public Safety, the Las Cruces/Dona Ana County, New Mexico, Metro Narcotics Agency, the New Mexico State Police, and the Harris County, Texas, Sheriff's office. In addition, Assistant United States Attorneys from El Paso, San Antonio, and Houston, worked with grand juries in both El Paso and Houston.

These investigations revealed a scope and longevity which were astonishing. For years, marijuana had been delivered in large quantities to El Paso where it was warehoused before distribution throughout the country. A sales force of Williams' "employees" would make sales to clients throughout the country and arrange for delivery via a large inventory of vehicles which included vans, motor homes, and camouflaged cargo trucks. The ways in which the marijuana was concealed included hollowed out loads of 2" x 4" lumber on open bed trucks. An estimated seventy-two tons of marijuana were distributed between 1970 and 1981 in this manner.

Discovery and analysis of the information produced by Vance Williams' arrest and drug conviction in 1977, along with the discovery of $750,000 in a Swiss bank account of Drake Williams, joined with other evidence in establishing the long term and continuing nature of the Williams' drug business. Forty thousand separate documents were examined and prepared for trial, 175 witnesses were interviewed, and over 750 exhibits were developed for presentation during the two month trial. The investigation was a good example of many people and agencies working together in a new way resulting in unparalleled success in complex investigations.

In March 1985, the Williams' organization was brought to trial; attorneys on both sides did not expect any surprises. Everyone was wrong. On April 19, 1985, twenty-one days after the trial began, and one month before it was eventually to be completed, the former wife of a drug supplier in Mexico walked into the Houston Drug Enforcement Administration office and asked for protection from her ex-husband. She claimed that she was going to be killed, and that her former husband was going to use her death as proof of his innocence regarding some missing drugs. The planned murder was intended to satisfy the Mexican drug organization that the alleged problem had been resolved.

Testimony by this new found witness revealed a great deal including the startling information that major drug transactions were consummated by the defendants on the days that the Court declared recess. Particularly damaging to the defendants' cause was testimony that "shipments were planned for both Wednesday and Friday" of the week following this witness' testimony. On that week, the Judge had announced an unusual recess in the Williams'

organization trial to enable the court to dispose of unrelated civil matters on both Wednesday and Friday.

Testimony from the witness who was marked for death provided the final proof of the continuing and on-going nature of the Williams' drug enterprise.

Expert financial testimony by Government witnesses concluded the trial, resulting in a twenty-five year CCE conviction without possibility of parole and a $100,000 fine for Drake Williams. Vance Williams, the twin, received twenty years in prison and was fined $50,000. The other eight defendants received substantial penalties.

THE RECKMEYER BROTHERS

Nowhere in successful Federal criminal cases is the volume of seizures and forfeitures of both illegal contraband and the illgotten gains of criminal conspiracies greater than in those made in successful Task Force investigations and prosecutions. The forfeiture statutes previously available, which were augmented by the broadened forfeiture provisions as set forth in the Comprehensive Crime Control Act of 1984, provide unique opportunities to Federal authorities in the war against illegal trafficking in drugs.

The forfeitures which resulted from the successful case against the Reckmeyer brothers illustrate how these Federal statutes have been successfully implemented to deny major drug traffickers of their drugs, their money, and their personal financial assets obtained with the proceeds of illicit drug trafficking.

In February 1981, an off duty United States Secret Service Special Agent entered his bank in Fairfax, Virginia, to deposit his government pay check. In line in front him was a young man carrying two brief cases. The young man opened the two cases and began to pass stacks of $10 bills to the teller. The agent, a specialist in counterfit currency, waited for the transaction to be completed and then approached the bank manager who advised the agent that he knew the young man and that similar deposits had been made frequently over the last four years. Since the deposits never exceeded the $10,000 reporting requirement level, the bank had never filed a Currency Transaction Report with the Internal Revenue Service. The agent then checked the money deposited and took down a sample of serial numbers from the bills. On his way out of the bank, he met a friend who was a Fairfax County Policeman. He told the police officer of his suspicions and was informed that the depositor was one of the Reckmeyer brothers who ran an oriental rug business who had bought the Shelburne Glebe, an historic estate outside of town originally constructed in 1773 for George Washington's Chaplin. The police officer further advised the special agent that there had been rumors that the two brothers had been selling marijuana in high school. He agreed that deposit and the earlier reports of the Reckmeyers' drug dealings warranted investigation. As a result, a joint DEA-Fairfax County Police stake out of Crancy's warehouse where Reckmeyer's Chinese and Persian carpets were stored was initiated. Proving unproductive, the surveillance was discontinued and the case became dormant until 1983 when activities of the Reckmeyer brothers came to the attention of Mid-Atlantic Organized Crime Drug Enforcement Task Force.

Information obtained from grand jury investigations in Florida and Virginia revealed that the Reckmeyers were connected to drug smugglers and distributors, previously convicted in other parts of the country. All the information, i.e., their lavish life styles, cash transactions and the grand jury testimony fit

the standard profile of a successful drug trafficker. Consequently, a formal OCDETF investigation was begun.

Shortly after the OCDETF investigation expanded to include a full scale grand jury investigation, Robert Reckmeyer, Christopher Reckmeyer's brother, began to liquidate his most obvious assets. In November, 1983, he sold his Gibraltar Farm estate for $555,000. Due to prior contacts made by IRS, the real estate agent notified IRS Special Agents of the pending settlement. Acting on very short notice, a Warrant of Arrest of Property was obtained for the approximately $200,000 in proceeds due to Robert Reckmeyer. The funds were seized under civil forfeiture provisions as converted profits from drug trafficking. Reckmeyer and his attorneys immediately filed motions to begin civil discovery proceedings. The government responded that civil discovery would jeopardize the integrity of the grand jury investigation and won a one year stay in the discovery proceedings.

Due to the Reckmeyer brothers' sophistication and insulation from "front line" drug trafficking, one of the main thrusts of the Task Force investigation was to obtain sufficient direct and circumstantial evidence to prove that the numerous business entities established by the Reckmeyer organization were money laundering fronts. As the investigation progressed, the true nature of the Reckmeyer's businesses became apparent. Extensive surveillance of the businesses established the lack of business activity. All identified customers and suppliers were interviewed. Approximately ninety percent of the alleged "business receipts" were sales to either unidentified "cash" customers or to marijuana/hashish traffickers. Over fifty percent of the alleged millions of dollars of gross receipts of the various corporations were never deposited to the business accounts and over seventy-five percent of the business account deposits consisted of cash.

The Reckmeyer's laundered their illegal drug proceeds through their corporations by routinely creating false sales invoices. The invoices would indicate "cash sales" that never occurred or inflate the true sales price. In addition, goods left on consignment were written up as sales and the gross sales figure was never adjusted for sales returns and allowances.

Following the advice of convicted drug smuggler Barry W. Toombs, Robert Reckmeyer opened bank accounts in the Bahamas. One indicted co-defendant stated that Reckmeyer told him that he had $3.5 million in the Bahamas in the summer of 1983. After the investigation began Reckmeyer found himself in a negative cash flow position due to the pressure of the investigation.

On January 9, 1985, a Federal grand jury in Alexandria, Virginia, indicted twenty-six members of the Reckmeyer organization in a 101 page sealed indictment. On Tuesday, January 15, 1985, approximately 125 Federal and state law enforcement agents simultaneously executed five search warrants

and began the execution of twenty-six arrest warrants. The homes of the Reckmeyer brothers as well as their business locations were searched. The $2.4 million Shelburne Glebe Estate of Christopher Reckmeyer was seized. The wife of Christopher Reckmeyer was caught attempting to take $22,000 in currency out of the Glebe. She hid the currency in a suitcase while packing her clothes to move out of the mansion. Virginia State Police scuba divers scoured the thrity-two acre lake for buried treasure. Metal detectors combed the grounds of the Reckmeyer estate in search of buried gold and silver. Two water-tight, sealable plastic pipes containing thirty-five pounds of silver were seized. Approximately $210,000 in U.S. currency and numerous valuable gemstones were found at the Shelburne Glebe. Oriental carpets valued at approximately $500,000 were seized from the Crancy's Inc. warehouse. Numerous motor vehicles, were seized. Restraining orders were served on twenty-two bank accounts resulting in the ultimate forfeiture of approximately $340,000. In addition, thousands of documents were seized including financial records, records of Reckmeyer's marijuana business, and false identification papers (driver licenses and birth certificates).

Gold, silver and gems valued at over $1 million were recovered from buried hiding places owned or controlled by Robert Reckmeyer. Based on information contained in the indictment, search warrant affidavits, court proceedings and other public documents, the IRS Examination and Collection Divisions worked diligently to complete assessments of the delinquent taxes plus interest and penalties owed by the defendants and their corporations. The total civil tax and penalties computed for these jeopardy assessments was $92,818,056.65. Christopher Reckmeyer and his corporations owed $55,591,873.97 and $31,200,430.46 pertained to Robert Reckmeyer and his corporations. Over $6 million in disposable assets have been thus far recovered from the Reckmeyer organization.

One week before the scheduled March 18, 1985 trial date, the fifteen apprehended defendants began changing their not guilty pleas to guilty. On the Wednesday before the Monday morning trial was to begin, only two not guilty pleas remained - those of the Reckmeyer brothers. However, before Wednesday was over, Robert Reckmeyer realized his fate was sealed with the overwhelming evidence the government had amassed against him and he changed his plea to guilty. Part of Robert's plea agreement - full cooperation with the government - forced Robert into the position of agreeing to testify at the trial against his kingpin brother, Christopher. The newspapers and television stations widely publicized this "brother versus brother" story. Robert Reckmeyer was required to forfeit all of his assets that were purchased with drug proceeds. Christopher Reckmeyer, now standing alone, finally realized that, "when the dice are loaded you don't play craps, when the deck is stacked you don' play poker", as his attorney would later state to the press. On Thursday, March 14, 1985, Christopher Reckmeyer, combative and argumentative to the end, pleaded guilty during a suspense filled

two hour hearing in U.S. District Court to the Continuing Criminal Enterprise charge and to two tax charges. However, one week after Robert Reckmeyer was sentenced to serve seventeen years without parole, Christopher Reckmeyer filed a motion to change his guilty plea back to not guilty on the grounds that the Judge had not properly explained the elements of CCE to him. On May 17, 1985, the Court denied Reckmeyer's motion and sentenced Christopher, like his brother, to seventeen years without parole.

During the course of the investigation various witnesses stated that the Reckmeyers buried currency, gold, silver and gemstones at their residences for safekeeping. Robert Reckmeyer told the Task Force Agents that he had buried approximately $1 million worth of gold, silver, and gemstones and that he had $50,000 in currency buried at his personal residence. Reckmeyer directed the agents to two sites in Anne Arundel County, Maryland where he had buried eleven containers of silver and gemstones. Then he "remembered" that he had hidden $300,000 worth of gold at his parents' house in McLean, Virginia. Finally, he lead the agents back to his former residence at Gibraltar Farm which he had sold in November of 1983. After digging in the tractor shed for two hours, Robert Reckmeyer led agents into the woods where he unearthed a container of gold. Reckmeyer indicated that he thought he had buried silver in the tractor shed, but since his digging and the metal detector were unsuccessful, agents gave up the search. The agreements made by both of the Reckmeyers as to the forfeiture of proceeds of drug trafficking by them are continuing in nature. If any additional assets are located by any means, they, too, will be seized and forfeited to the United States.

Mr. ROYBAL. You said a little while ago, Mr. Egger, that you hadn't said anything about it before. As far as I can remember this has never been discussed before this committee since I have been here. I think this is one of the most important things that you can talk to me about.

Mr. EGGER. I don't think that I have made a particular point of it, and I am chagrined that I didn't do that. I have talked about it publicly, but probably not before this committee.

Mr. ROYBAL. You see, I am a critic of the Florida Task Force. The reason for that is that agents were taken from different parts of the United States, for example, from Los Angeles, from Seattle, Washington, from New York, hundreds of agents, and were put all into Florida. These people who deal in narcotics are smart enough to avoid Florida now, so they go through Los Angeles instead. As a result, there has been an increase in drug trafficking in the Los Angeles area, in Seattle and in these other places.

That was due to the fact of course, that those who planned the Florida task didn't want to spend the money to employ and train additional agents. Therefore, these agents were taken from other parts of the country. Now while I think the Task Force has done a pretty fair job, I still think it could have done a lot better than it has done at the present time.

I would like to see coordination of the various agencies in these activities.

Mr. EGGER. Yes.

Mr. ROYBAL. I don't know that such an effort has been made.

Mr. EGGER. Oh, yes.

Mr. ROYBAL. Can you tell me about that?

Mr. EGGER. Right. I can tell you about that, but I would also like to include in there some of the imaginative things that we are doing in our investigative work today, because as you must know, we have a tremendous problem with data gathering, particularly with money going offshore, and then our inability to track that money as it goes, and how it comes back and to whom and all that.

MONEY LAUNDERING

One of the most difficult areas that we are facing today in our investigation of the money laundering activity and the follow on from that is the inability to secure information from the Caribbean countries, from Panama, from Switzerland and various other countries around the world, where the bank secrecy rules are guarded totally.

Mr. ROYBAL. Mr. Egger, we went to Hawaii not too long ago, and since then have been more interested in California with regard to the production of drugs, in this instance, marijuana. I was told by an agent in Hawaii that California is first, Hawaii is second, and Florida is third and that the three states produced more marijuana than all the other states combined, plus the marijuana that is imported into the United States.

Mr. EGGER. That comes in from Colombia.

Mr. ROYBAL. Why don't we do something about that, I asked him. I am not going to ask you, and there were long, long discussions as to why it couldn't be done. However, these people who sell marijua-

na, whether it is grown in Florida or California or Hawaii, launder their money.

Mr. EGGER. They certainly do.

Mr. ROYBAL. It has to be done somewhere down the line. Is that where you come into the picture?

Mr. EGGER. Yes, sir, that is our mainstay. We are the financial investigators that are most deeply involved in this whole area. Just recently the Assistant Secretary of the Treasury delegated to me authority to go ahead and authorize Title XXXI investigations of banks and other things, institutions, in money laundering investigations. Heretofore we have had to gather the information and then get to the Assistant Secretary to get approval and all that.

We shortcut that. These are just some—one little thing that we have done that we believe enhances our ability.

Mr. ROYBAL. I think this is a subject matter that is primarily of interest to me, although it may be to other members of the committee as well. I have become interested in this since I was told that California was first in the production of marijuana. I didn't know that. I thought that all these narcotics were coming in from Mexico. I didn't believe it. He said you grow the marijuana right here in the United States. That goes into all our high schools and junior high schools. Our athletes are involved. Pretty soon almost anyone can start using that junk, and what will happen to the nation?

Mr. EGGER. The next step is into other drugs.

Mr. ROYBAL. I agree. Yet, we have been decreasing funding for organizations like yours, Customs and others, funding for education and for medical research. All that has been reduced, doing very little about this menace that is bound to destroy not only the youth, but the general population of the United States.

Anyway, that is something of great interest to me and I hope to be able to discuss it further with you.

Mr. EGGER. We will be very pleased to provide you with a full narrative, and then make our people available to sit down and talk with you in depth as to what we are doing and where.

Mr. ROYBAL. And then let's see what can be done about an increased united effort in the future.

Mr. EGGER. Yes, sir.

Mr. ROYBAL. Thank you very much, Mr. Egger, Mr. Rogers, and I thank your colleagues for your presentation this afternoon.

The committee is adjourned.

[Questions for the record, the answers thereto and the justifications follow:]

ABUSIVE TAX SHELTERS

Identification of Abusive Tax Shelters

MR. ROYBAL: Abusive tax shelters are usually investment promotions that lack economic purpose other than the generation of tax benefits and constitute an abuse of the tax laws. The detection of abusive tax shelters is one of the Internal Revenue Service's (IRS) top priorities. IRS identifies abusive shelters primarily through its examination of taxpayer returns containing tax shelter issues in general and through tax shelter registration data provided by promoters. IRS has instituted an enforcement program to deal with promoters of abusive tax shelters. In recent years, the Congress has sought to enhance IRS enforcement efforts against promoters through the addition of compliance tools in the Tax Equity and Fiscal Responsibility Act of 1982 and Deficit Reduction Act of 1984.

IRS estimates that there was a backlog of 382,000 taxpayer returns containing tax shelter issues, in general, in the examination process as of June 30, 1985--an increase of 45,000 from the end of 1984. The effectiveness of efforts to reduce the backlog depends on the timeliness of IRS decisions regarding whether an investment promotion involves the sale of an abusive shelter. In 1985, IRS identified 25 investment promotions as being abusive, which accounted for 44,700 taxpayer returns in the backlog.

What is the IRS' criteria for determining whether an investment promotion lacks economic purpose, i.e., is it an abusive tax shelter?

MR. EGGER: An abusive tax shelter promotion is one that utilizes improper or extreme interpretations of the law or the facts to secure for investors substantial tax benefits which are clearly disproportionate to the economic reality of the transaction. The criteria used to identify an abusive tax shelter are: overvalued assets; false or fraudulent statements; and lack of profit potential. Examples of the principle characteristics associated with abusive tax shelters include: large net loss; large amount of investment tax credits; negative capital account in an investment and; use of non-resource or contingent financing.

MR. ROYBAL: What factors contribute to the long time required for IRS to determine that the investment promotions identified in the backlog of taxpayer returns involve the sale of abusive shelters?

MR. EGGER: Tax shelter promoters are generally uncooperative in responding to examiner requests for books, records, or testimony. This lack of cooperation leads to the issuance of summons and possible summons enforcement. Most examinations require third party interviews and appraisals of the asset in question. In a significant number of cases, promoters fragment business

activities so the books and records and the asset in question are not in the same geographical area. We also have identified instances where abusive tax shelters have been organized in tax haven countries.

MR. ROYBAL: At what organizational level in IRS is the official determination made that a specific investment promotion involves an abusive tax shelter?

MR. EGGER: Potential abusive promotions are sent to a district screening committee made up of district managers and a representative of district counsel. If the committee believes a promotion is abusive, it is assigned for examination to a revenue agent and a district counsel attorney. The revenue agent and district counsel attorney will contact the promoter, request books and records to review, and make a determination if the promotion is abusive.

MR. ROYBAL: Once it is determined that an investment promotion involves an abusive shelter, to what extent is the initial determination subject to higher level review?

MR. EGGER: If the case involves a promoter penalty, pre-filing notification letter to the investors, or an injunctive action against a promoter, the case is further reviewed and approved by the District Director with the advice of District Counsel. Pre-refund cases, because of their sensitivity, require additional levels of review and are approved by the Assistant Commissioner (Examination).

In injunctive cases the Department of Justice makes the final determination as to the injunctive potential before petitioning the District Court.

MR. ROYBAL: What procedures are used to disseminate Service-wide a determination that an investment promotion involves an abusive shelter?

MR. EGGER: We have a Management Information System consisting of several programs used in identifying, tracking and disseminating results of examinations to appropriate Service personnel. The information is disseminated through monthly hard copy reports. Additionally, access to the data is available through the use of computer terminals.

MR. ROYBAL: What factors have contributed to the June 1985 backlog of 382,000 taxpayer returns involving tax shelter issues?

MR. EGGER: In addition to the factors noted earlier, such as uncooperative promoters, summonses, and promotions and investors in different geographical areas, multiple investments by taxpayers also have caused the backlog to increase. Promoters in many instances, also structure the promotion so that the proposed deductions/ credits are reported on the investors' individual returns on Schedule C (Profit or (Loss) from Business or Profession).

The absence of a partnership return in these cases has made the identification of an abusive tax shelter promotion more difficult. Taxpayers have continued to invest in abusive shelters which, when detected by our front-end identification programs, have added to our existing inventories.

During FY 1985, Examination closed over 141,000 returns resulting in additional recommended tax and penalties of over $2.5 billion. We have made tax shelters one of our highest priorities.

MR. ROYBAL: What was the backlog of taxpayer returns involving shelter issues as of December 31, 1985? How many of the returns in the backlog have been determined to involve abusive tax shelters? For each category of returns identify the number of (a) investment promotions and (b) partnerships.

MR. EGGER: Our tax shelter inventory as of December 1985 is 413,700 returns. The number of returns which are being examined or in the process of being closed as abusive tax shelters is 353,700 returns. The balance of the inventory (60,000) are in the process of being reviewed for audit potential.

The inventory consists of flow-through entities (i.e., partnership returns) and their related investors. We currently have approximately 38,000 flow-through entities of which 30,000 are partnership returns. Not included in our inventory figures are 1,200 examinations in process to determine if promoter penalties, injunctive relief, or pre-filing notification letters are appropriate.

"OUT OF-POCKET EXPENSES" POLICY

MR. ROYBAL

In an effort to administratively dispose of the backlog of tax shelter cases, IRS adopted a policy effective August 23, 1982, of allowing "out-of-pocket expenses" (cash investment) as a deduction if the taxpayer would agree to settle the case. The policy is not applicable to post-1980 returns. IRS, in November 1984, implemented a selected withdrawal of "out-of-pocket expenses" for pre-1981 tax shelter cases that had not been settled and would involve minimal litigating hazards.

> In order to reduce the backlog of pre-1981 returns containing tax shelter issues, IRS offered certain taxpayers their "out-of-pocket expenses" as a deduction in the initial year of the investment as an inducement to settle the case.
>
> > To what extent had IRS made a determination service-wide that each investment promotion involved in the "out-of-pocket expenses" offer was an abusive tax shelter?

MR. EGGER:

The Service-wide position is that we will only allow out-of-pocket settlements in pre-1981 abusive tax shelters. The exception to this general rule is that out-of-pocket settlements will not be allowed in litigating vehicles and criminal investigation cases.

MR. ROYBAL

What is the legality and IRS' rationale for the "out-of-pocket expenses" policy?

MR. EGGER:

The out-of-pocket settlement policy was adopted after consideration of five factors: (1) the size of the pre-1981 shelter inventory, which was roughly half of all pending nondocketed cases; (2) the minimal precedential value of these "old" cases; (3) the Service's resource constraints; (4) the need to focus on more current tax shelter abuses; and (5) the imposition of penalties for overvaluation and substantial understatement for 1981 and subsequent tax years. It was also recognized that there were some litigation hazards in these cases based on various theories. The administrative compromise of the out-of-pockets settlement was seen as a tool to reduce tax shelter inventory.

The Service has long exercised its authority at the Appeals level to resolve issues based upon a hazards-of-litigation analysis. The out-of-pocket settlement policy merely extended to Examination the authority to settle these cases on a uniform basis. The out-of-pocket settlement policy also recognizes a certain degree of fairness by allowing each taxpayer only to deduct the cash investment.

MR. ROYBAL

The Tax Court often holds that taxpayers are not entitled to their "out-of-pocket expenses". Therefore, to what extent is IRS considering changing its "out-of-pocket expenses" policy for pre-1981 returns when the taxpayer has not been advised that the "out-of-pocket" offer could be withdrawn?

MR. EGGER:

The IRS periodically reviews its out-of-pocket settlement position with respect to individual shelters. If the IRS litigates a specific shelter and obtains a decision on the merits, we will review and modify our settlement position in light of the Court's decision. Those taxpayers, who have not previously resolved their cases, will be advised of the modified settlement position. In addition, taxpayers are frequently advised that an out-of-pocket settlement offer or any other settlement offer has a deadline for acceptance. If a taxpayer rejects an out-of-pocket settlement offer, that settlement offer is usually not reoffered to the taxpayer.

MR. ROYBAL

Since the "out-of-pocket expenses" policy applies only to pre-1981 returns, how does this provide for equitable treatment of taxpayers with similar tax shelter issues on post-1980 returns?

MR. EGGER:

A factor in adopting the out-of-pocket settlement policy was the enactment of penalties, such as the overvaluation penalty of section 6659 and the substantial understatement penalty of section 6661, which were applicable to 1981 and subsequent taxable years. It was thought that enactment of these penalties would have a beneficial effect on tax compliance and justified distinguishing between shelters by year of investment rather than by type of investment. To the extent that the out-of-pocket settlement policy applies, it is available uniformly to pre-1981 taxpayers (other than litigating vehicles and criminal cases) and is not available to post-1980 taxpayers.

MR. ROYBAL

What is IRS' policy regarding the settlement of post-1980 returns involving abusive tax shelter issues?

MR. EGGER:

Post-1980 returns involving tax shelter issues may be resolved, as any other issue, at the Examination level based upon a facts-and-circumstances analysis of the shelter issues. Out-of-pocket settlement offers are not available for post-1980 returns. Appeals and Counsel may settle post-1980 shelter cases on a hazards-of-litigation basis as they would resolve any other case.

MR. ROYBAL

Doesn't the "out-of-pocket expenses" offer conflict with the Service's position that agressive action should be taken against abusive tax shelter deductions?

MR. EGGER:

The short answer is that to a limited extent there is a conflict. The out-of-pocket offer was a tool in the Service's efforts to reduce the inventory of docketed and nondocketed shelter cases as well as publicly stating to taxpayers that the so-called "investments" would not yield the purported tax benefits and economic benefits.

However, it should be noted that, even when a cash out-of-pocket settlement offer is made, it results in a substantial disallowance of claimed shelter losses, unless the investment was in a straight 1:1 deal. The amount of loss allowed depends upon the actual cash invested. For instance, someone who invested in an abusive 10:1 write-off only receives ten cents on each dollar "invested." In addition, if the Service litigates a shelter and prevails on the merits, the out-of-pocket offer is withdrawn, and the Service now looks to the hazards of litigation in resolving and settling taxpayer cases. Finally, few investors in such shelters would consider out-of-pocket settlements a windfall to them.

INTERNAL REVENUE SERVICE - CRIMINAL INVESTIGATION DIVISION
SUMMARY OF ACTIVITIES
HIGH LEVEL DRUG LEADERS PROJECT
(Includes Organized Crime Drug Enforcement Task Forces)
1981-1987

Fiscal Year	CID Staff* Years Expended	Cases Opened	Prosecutions Recommended	Indictments/ Informations	Convictions Guilty and Nolo Pleas	% Convicted Sentenced To Prison	Average Prison Sentence(Mos)	Total Fines (Thousands)	CID Budget Narcotics (Millions)
1981	820	755	170	110	50	74%	39	172	31.1
1982	956	729	343	180	121	76%	45	1,709	39.6
1983	1,069	826	421	265	167	87%	68	893	45.0
1984	1,213	1085	712	516	353	77%	52	4,572	51.8
1985	1,268	1188	840	673	515	80%	67	4,235	56.3
1986 **	171	267	222	182	133	77%	58	946	55.6
1987 ***	1,211	—	—	—	—	—	—	—	55.6

* Total CID staff years, including support staff years
** 10/1/85 - 12/31/85 case information, budget information estimated entire fiscal year
*** Estimated

MR. ROYBAL

IRS' position on the selected withdrawal of "out-of-pocket expenses," involving at least 44,700 returns, was that the tax shelter issues could be resolved with minimal hazards of litigation.

Why didn't IRS proceed with litigation procedures?

MR. EGGER:

In recent years, IRS has tried numerous tax shelters which have settled the case law with respect to many types of shelters. It is neither economically feasible for the IRS nor practicable for the Tax Court to try all of the docketed shelters. Now that the case law is established in many areas, we are increasingly resolving these cases through the litigation process. Agressive, selective litigation and withdrawal of out-of-pocket settlement offers are proving successful.

MR. ROYBAL

What amount of potential taxes was lost by IRS' making the (1) "out-of-pocket expenses" offer and (2) "selected withdrawal of out-of-pocket expenses" offer, rather than having the disallowances on the taxpayer returns sustained through settlements and/or litigation procedures?

MR. EGGER:

We do not have any precise figures available regarding the potential taxes "lost" by the out-of-pocket settlement policy. However, we note that in all unagreed cases, whether shelter or nonshelter, the amounts in dispute are subject to compromise by Appeals and Counsel. In our opinion, extension of settlement authority to Examination through the out-of-pocket settlement policy did not result in a significant loss of potential taxes had the cases been handled in the normal manner.

ABUSIVE TAX SHELTERS

Tax Shelter Registration Program

MR. ROYBAL: Under the Deficit Reduction Act of 1984, certain tax shelter promoters are required to register their shelters with IRS.

How many shelters have been registered with IRS?

MR. EGGER: The service has issued 22,155 registration numbers since the inception of the program in October 1984. During the 4 months ended January 31, 1986, 4,315 registration numbers were assigned as compared to 17,840 in FY 1985. However, it should be noted that during the first 3 months of the program, there were 6,721 applications filed under the requirements of the first revision of the temporary regulations which were broader in scope than the current regulations.

MR. ROYBAL: To what extent has IRS found that shelter promoters are not registering?

MR. EGGER: While we have found instances where promoters have failed to register, the extent of the problem is unknown at this time. This is due to the newness of this program. We have instituted a tracking system which will capture the requested information in the future.

MR. ROYBAL: How does IRS use registration information in its program to curtail the sale of abusive tax shelters?

MR. EGGER: Tax shelter registration information from the application is distributed on a monthly basis to all districts, service centers and regional offices. We have found that, in the short time the program has been in existence, registration information has been extremely beneficial in our efforts to timely identify and examine abusive promotions. For example, application information:

(A) supports our injunction activities by proving the existence of current activities of promoters already under examination.

(B) allows district tax shelter coordinators to keep abreast of tax shelter promotions within their districts.

(C) is used by our Abusive Tax Shelter Detection Teams in each service center to detect and identify potentially abusive promotions.

MR. ROYBAL: To what extent has the information proven to be useful to IRS in the early detection of abusive tax shelters?

MR. EGGER: The feedback we have received from our field personnel indicates to us that the registration information has been very useful to the shelter program. For example, in one region, 38 separate tax shelter penalty examinations were initiated or enhanced by the

appropriate use of registration information. As this program is relatively new, we expect results to substantially increase during the coming year.

Tax Shelter Penalty and Injunction Provisions

MR. ROYBAL: Have the tax shelter promoter penalty and injunction provisions of the Tax Equity and Fiscal Responsibility Act of 1982 helped IRS reduce the number of abusive shelters being sold?

MR. EGGER: Since the inception of TEFRA, we have completed 262 promoter cases, assessed promoter penalties of $79,168,000 and enjoined 71 promoters from further tax shelter activity. The professional community and various periodicals have all indicated that our activities have resulted in a decline in the number of abusive promotions being sold. We do not feel, however, that we have resolved the tax shelter problem.

As the promoters have become familiar with the new law, they have found ways to frustrate our efforts. For example, promoters are using offshore promotions, creative financing, and instructing their clients to hide deductions on their returns by misclassifying them.

MR. ROYBAL: Does IRS have any new initiatives or proposed legislation under consideration to combat abusive tax shelters?

MR. EGGER: At present, we do not have any proposed legislation. Sufficient time has not elapsed to fully assess the impact of the Tax Equity and Fiscal Responsibility Act (TEFRA), Economic Recovery Tax Act (ERTA), and Deficit Reduction Act of 1984.

Also, H.R. 3838, which is pending will have a significant impact on tax shelter promotions. Before new legislation is proposed, we will need to assess the impact of the bill in its final form.

A new initiative being formulated is the use of Nationally Coordinated Projects. The Nationally Coordinated Project approach will assure that all IRS functions take coordinated expeditious and effective action to address the area of noncompliance. This will help deter further abusive tax shelter promotion activity by the coordinated assertion of penalties against all persons responsible for organizing, promoting/selling, marketing, and/or aiding/abetting the abusive activity.

The new Partnership Control System (PCS) is designed to control an unlimited number of investors in Abusive Tax Shelter Cases. The system also will not allow the closing of an investor return without first completing the examination of all related flow-through entities. Updates to PCS of new information will be available nationwide on a weekly basis.

LONG RANGE PLANNING

MR. ROYBAL: In May 1984, IRS published its strategic plan with 14 specific initiatives to develop an information management strategy. These initiatives include things, such as the establishment of an information management resource function and a telecommunication strategy. The goal was to facilitate the transition to a predominantly computer and information technology environment.

These strategic initiatives were assigned to various IRS executives to develop implementation plans and oversee their execution. These plans were approved in 1984 with completion dates ranging from mid-1985 to 1990.

Have any of the 14 strategic initiatives been partly or fully completed? What is the timetable for completion?

MR. EGGER: One of the strategic initiatives, IMS-8, entitled User Guidance for Systems Development, has been completed. The recommendations were approved by the Automation Policy Board on January 28, 1985, and are currently being implemented by the affected organizations.

Others, such as IMS-6, Separate Applications Development and Processor Procurement, have been partially completed. One significant action toward implementation of this initiative was the establishment of the User Assistance and Computer Capacity Management Office to perform capacity planning for the Service.

The timetable for completion of these strategic initiatives varies from calendar year 1985 out to calendar year 1991 for IMS-13 for the establishment of an integrated telecommunications network. Others, such as IMS-7, Formalize Processes for Dealing with Human Resources Impacts, will continue indefinitely with studies of future and long range impacts.

MR. ROYBAL: Have there been, or will there be, any organizational or systemic changes resulting from the implementation of the 14 strategic initiatives?

MR. EGGER: Several of the strategic initiatives are expected to have organizational impacts. For example, IMS-2, Establish an Information Management Function, is anticipated to result in organizational realignments, and others, such as IMS-1, Establish a Data Management Environment, and IMS-3, Clarify Research and Development Organizational Responsibilities, may also. One initiative, IMS-6, Separate Applications Development and Processor Procurement, has already resulted in an organizational change with the establishment of the User Assistance and Computer Capacity Management Office to perform capacity planning for the Service.

The IMS initiatives represent a directional plan providing a framework within which operational and implementation plans will be developed. We expect numerous organizational and systemic changes to result from their implementation.

MR. ROYBAL: Has IRS developed an overall strategy to integrate the various components of each of the 14 strategic initiatives?

MR. EGGER: The 14 strategic initiatives reflect the Service's goal of establishing a comprehensive system of readily accessible information required for tax administration processes. Integration of these strategic initiatives to help attain this goal, as well as individual automation projects and initiatives, is under the guidance of the Service's Automation Policy Board, chaired by the Deputy Commissioner.

TAX SYSTEM REDESIGN

MR. ROYBAL:

IRS established a Tax System Redesign Project (TSR) to address critical tax processing system-design issues and develop an acquisition strategy for a redesigned or new tax processing system that will support IRS' workload into the 21st century. Under TSR, IRS will study and consider state-of-the-art ADP concepts that could result in fundamental changes in how tax returns are processed. All current and interim ADP systems may be affected or replaced. IRS estimates TSR would help it collect billions in additional revenues.

In commenting on why TSR is needed, IRS notes that the architectural design of its computer systems is that of the 1950's, although it has added subsystems and new computer equipment to meet its ever-increasing workload demands. It also notes that many parts of its processing system are manual, requiring large amounts of human resources, particularly during tax filing season when many temporary employees are added. IRS anticipates that while substantial savings can be achieved from a redesigned system, the redesign would involve major system changes.

One major change being considered is the conversion of IRS computer programs to a higher level (fourth generation) language. The computer programs IRS uses to process its master file of information on individuals and businesses are written in assembler language. IRS would convert these programs to a language which is easier to revise the programs as needed. Such ease of maintenance is important given the frequent changes that are made to these programs when new tax laws are written or whenever IRS wishes to revise them to meet its changing needs. Assembler language is also machine-dependent, which means it will be more difficult and costly for IRS to convert to other computer systems in the future.

Several other improvements are planned under TSR. For example, IRS is considering using newer methods of data storage, i.e., instead of storing its information on approximately a quarter of a million computer tapes; it could store it on various types of disk storage devices. Under TSR, it also intends to convert to a more efficient structure for its numerous data files.

All of these proposed conversions are major undertakings, requiring careful planning. Treasury recently rejected IRS' proposed acquisition strategy for TSR. It noted the massive system changes being considered under TSR, and said that IRS needed to state TSR objectives in more detail.

What are IRS's original and latest estimated milestone dates for TSR? Does IRS plan to make major changes to the objectives or scope of the TSR project?

Mr. Egger: As a result of Treasury's feedback, TSR will no longer be a project with Milestones based on acquiring a Redesigned Tax System. We will pursue a redesigned computer-based tax administration system through several initiatives that have been incorporated into our current (FY 88 - 92) Information Systems Plan (ISP).

I have attached a copy of the original Tax System Redesign milestones as submitted to Treasury on October 7, 1985. In comparison, our revised objectives (Master File Modernization, Electronic Filing, Digital Archival Storage of Tax Information, and Image Technology for Tax Return Processing) begin in Fiscal Year 1986 and extend through the various cycles of system development and implementation into Fiscal Year 1997.

Mr. Roybal: Does IRS intend to convert its current master file programs to a higher level language, and if so, when?

Mr. Egger: Yes. The Service intends to convert the current master file assembly language programs to a higher level language. Development of a Software Conversion Plan will begin in Fiscal Year 1986. A fully parallel pilot of the converted Individual Master File segment is scheduled for Fiscal Year 1992. We anticipate a parallel pilot of an on-line Individual Master File segment in Fiscal Year 1994. Other segments will follow the same systems development cycle beginning with parallel pilots of the converted files and progressing through an on-line parallel pilot. Our goal is to provide an on-line data base of the Master File for use by appropriate functions by Fiscal Year 1997.

Mr. Roybal: Has IRS developed a plan for how this software conversion would be done? Would these changes be phased in and, if so, over what period of time?

Mr. Egger: Tax System Redesign intends to develop a Software Conversion Plan in conformance with the Federal Information Resource Management Regulations. Development of the Software Conversion Plan will begin in Fiscal Year 1986. This conversion plan will explore the phased in approach as well as other implementation methods.

We anticipate that these essential system changes will require that the task of software conversion, parallel pilot operations and implementations of the Master File Modernization effort be accomplished in phases. Current plans are to begin the application program conversion of the Individual Master File segment in 1990. We will conduct a fully parallel pilot of the decentralized batch Individual Master File segment in Fiscal Year 1992. The phased conversion effort will continue with the other master file segments through Fiscal Year 1996. Our ultimate goal is to provide an on-line data base of the Master File for use by appropriate functions by Fiscal Year 1997.

Mr. Roybal: Has IRS studied how it will convert to a new means of data storage or a new data file structure? When would such a conversion take place?

Mr. Egger: Tax System Redesign plans to begin the Master File Modification Requirements Analysis in Fiscal Year 1986. The Requirements Analysis will address alternatives of converting the current methods of storage and structure to new data file structures and storage methods, and make recommendations for acquisition/implementation.

Because of the complexity and magnitude of the Master File Modernization effort, the Service anticipates the Requirements Analysis recommending a phased and modular conversion approach. Our FY 88-92 ISP milestones project beginning of file structure design in Fiscal Year 1988 and conversion of the Individual Master File segment programs in Fiscal Year 1990.

A fully parallel pilot of a portion (segment) of the Individual Master File's new storage and file structure will be conducted in Fiscal Year 1992. The phased modular approach of program conversion, parallel pilot and implementation of the remaining master file segments will continue through Fiscal Year 1996. Our goal is to have an on-line expanded Master File for use by appropriate functions by Fiscal Year 1997.

Major Milestones

The following milestones leading to the acquisition of the redesigned Tax Processing Systems are estimated to be as follows. The more defined milestones will be submitted via an Advanced Major Acquisition Plan and updated accordingly.

Milestone	Year
Management Consultant Acquisition (IRS)	1986
Systems Integrator Acquisition (IRS)	1987
Design Concepts RFP (S.I.)	1987
Multiple Design Concepts to Refinement (IRS)	1987
Refinement Process of Selected Designs (S.I.)	1988
Single System Design Selected (IRS)	1989
Demonstration of Module (S.I.)	1990
Implementation Begins (S.I.)	1990

This is an extract from the "Preliminary Statement-of-Work for Tax System Redesign Project Systems Integrator" submitted to Treasury on October 7, 1985.

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MR. ROYBAL: Under TSR, major long-term communications changes, such as the use of communications satellites, are to be considered. A 1985 evaluation of IRS' ADP systems by Electronic Data Systems Corporation stated that IRS lacked direction on data communications and that a strategic plan was needed. A follow-up review by IRS staff agreed that IRS needed to better define communications responsibility. Is IRS preparing a strategic plan for communications? If so, will this plan integrate IRS' communications and ADP needs?

MR. EGGER: The Service's communications strategy is tied directly to the overall Treasury plan for communications. It will result in a network which can meet all of our voice, data, and office automation communications needs. This network will be integrated, in that it will carry both voice and digital data. Voice messages will be digitized, so that they can be handled in the same way as data.

The Service has been designated as the Executive Agent for the Department in developing the voice portion of this network. This involves providing nearly 300 digital automated private branch exchanges at key locations throughout the Department. These digital PABX's will handle local communications and, most importantly, digitize voice messages so that they can be handled using the most efficient and advanced communications technology. Special switches will be used to interface the resulting local nodes with the backbone data network being developed by the Bureau of Customs under another Executive Agreement.

The Service does have a long range plan which integrates both ADP and communications needs. It is called the Information Systems Plan (ISP). This plan establishes overall Service objectives and strategies for information systems and serves as the basis for development of the ADP portion of the Service's budget.

OPTICAL CHARACTER RECOGNITION

MR. ROYBAL: IRS is using two optical scanning systems to process such forms as Federal Tax Deposits, 1040EZ tax returns, and information documents (1099s, 5498s). Although the scanners appear to speed processing, the poor quality of some vendor-supplied documents and the failure of some taxpayers to accurately fill out the documents has decreased the efficiency of the scanners.

What steps has the IRS taken to educate taxpayers in completing scannable doucments? What have been the results of these measures?

MR. EGGER: The IRS had included stuffer notices with quarterly employer tax returns sent out to taxpayers instructing them in the correct way to fill out the FTD coupons. In November 1985, the coupons themselves were revised to highlight important instructions as well as making them easier to complete. Taxpayers ordering coupons after November and all new filers would receive the revised coupon and instructions.

Form 1040EZ instructions for 1985 emphasize the importance of entering legible numbers precisely within the boxes. Also, taxpayers are strongly encouraged to use preprinted labels in submitting their returns. Only Forms 1040EZ with preprinted labels (without address changes) can be processed by OCR. Last year, 55.2 percent of Forms 1040EZ for 1984 filed used preprinted labels and 36 percent of all Forms 1040EZ received nationwide were scannable.

The 1985 instructions for Forms 1099, 1098, 5498, 1096 and W-2G were clarified. The 1986 instructions will specifically state that a penalty for failure to file scannable returns will be assessed. Two news releases have also been issued on this topic. Results cannot be assessed at this time.

MR. ROYBAL: Do penalties exist for failure to file processable documents? If so, have they been assessed? What are the results?

MR. EGGER: No such penalties exist for FTD coupons which cannot be processed. However, a $50 penalty per unscannable information document is in place.

The first year for assessment of the penalty is 1986 for documents filed for 1985. Results unknown.

MR. ROYBAL: Is there a program is place to follow up on payers who submit poor quality documents?

MR. EGGER: In January 1986, the IRS began sending letters to taxpayers to advise them that their FTD coupons were not completed properly. A similar procedure is in place for information documents which are incorrectly prepared. If payers do not respond within 30 days of contact, the $50 per document penalty will be proposed.

What is the status of the OCR remittance
Does IRS plan to extend the use of that system

unding for the OCR remittance processing system
dget review. OCR technology will be included in
ace the entire remittance processing system in
centers.

What plans are there to further utilize OCR
service centers?

CR technology will be utilized in the remittance
scheduled for 1988/1989.

preliminary stages of pursuing OCR technology
nual Information Returns of Windfall Profit Tax,
ice Center beginning in 1987. We are also
ibility of using OCR for processing transmittal
Withholding Tax Return for U.S. Source Income
, as well as Forms 1042-S, Foreign Person's U.S.
ject to Withholding, at the Philadelphia Service
In 1988.

can Forms 941 (Erployer's Quarterly Tax Return)
's Quarterly Tax Return for Household Employees).
on is scheduled to be tested in July 1986 at our
enter with nationwide implementation planned for
do not have a definitive timetable for the 942

to scan Form 1120A, U.S. Short-Form Corporation
. Testing will begin in April 1986 at the
e Center with the pilot being conducted in May,
nationwide implementation date has not been
time.

INFORMATION RETURNS PROGRAM

MR. ROYBAL: In recent years, legislation, namely the Interest and Dividend Compliance Act of 1983 (P.L. 98-67), has served to expand the scope of IRS' Information Returns Program. Approximately 510 million non-wage (interest, dividends, etc.) information documents and 180 million wage (W-2s, etc.) related documents were received by IRS for tax year 1983 on paper and magnetic media. In addition, IRS annually receives over 10 million schedule K-1 (conduit) information returns, which record individual partner or investor income for partnerships, trusts, etc. The volume of non-wage information is expected to grow further over the next several years thus providing IRS with more income data than it has ever possessed.

How many non-wage information documents has IRS received for tax year 1984? What are the projections for tax years 1985 and 1986?

MR. EGGER: Last year we received almost 609 million non-wage information returns for 1984 income. We have projected receipts for 1985 and 1986 non-wage information returns to be 637 million and 702 million, respectively.

MR. ROYBAL: What percentage of tax year 1983 and 1984 non-wage documents were used in the matching program? Why were certain documents not used? Are business information documents used? If not, why not?

MR. EGGER: We processed 91% of tax year 1983 non-wage documents and 92% of 1984 non-wage documents.

Now, aside from business information returns, which I will address in a moment, the only information returns we don't process all the way through to matching with tax returns are those with bad data or missing social security numbers. During initial processing of magnetic media receipts from payers, we do identify "bad data", that is, missing or incomplete data fields and obvious problems such as letters or numbers in inappropriate fields. We also can drop documents up until the last minute when payers discover mistakes and inform us in time. When we find such errors, we inform the transmitter, and the payer is responsible for filing corrected documents which we do use.

As for information returns with business payees, there are several problems which prevent us from developing a computerized match. More often than not, businesses use accounting periods other than the calendar year covered by information returns. They also may use either a cash or accrual accounting method and have substantial earnings from sources not required to file information returns. Thus, matching information returns with tax returns for businesses becomes too complex for a computerized process.

MR. ROYBAL: To what extent are information documents not used because they were unprocessable. How many penalties were assessed in tax years 1982, 1983, and 1984 against filers of unprocessable documents? Will these penalties be fully enforced for tax year 1985 information documents?

MR. EGGER: Approximately four percent of the information returns we have received in the past were totally unprocessable. We have not yet assessed penalties, but we will start penalizing payers this year for improperly prepared information returns. All paper documents must be scannable. Also, all submissions in excess of fifty 1099's for interest, dividends, original issue discount, patronage dividends, or sales of securities and commodities must be on magnetic media. Otherwise, we will correspond for corrective action and assert penalties for non-compliance in lieu of reasonable justification.

MR. ROYBAL: To what extent were conduit information returns processed and used in the matching program for tax years 1982, 1983, and 1984? How much revenue is accounted for by these documents?

MR. EGGER: Each year we select approximately 20 percent of conduit information returns for matching. We only have preliminary figures for 1982 which shows about three and a half million dollars assessed in tax and penalties for unreported conduit income. The total is unquestionably higher, but an unknown amount is combined with assessments from other unreported income and, thus, we can't break it out for you.

MR. ROYBAL: Of the documents not used in the matching program, what percentage were subject to backup withholding? What mechanisms has IRS established to administer and enforce backup withholding?

MR. EGGER: We don't have any information on the number of taxpayers subject to backup withholding due to

problems with their identifying numbers. As of the third quarter of last year, however, there were over 14,000 payers withholding on accounts of payees who did not have or had not provided identifying numbers.

Backup withholding is required of payers when they cannot obtain an identifying number for a payee who is required to have one. Failure to do so makes the payer subject to a $50 penalty for each instance.

Backup withholding also applies to individuals who fail to report interest and dividend income and subsequently fail to pay the tax owed. We identify these individuals during routine examinations starting with 1984 returns, as a result of a contact in our underreporter program, or in the delinquent return programs. These taxpayers receive at least four notices telling them what they must do to resolve the condition and what will happen if they fail to do so. If they do not, the Service will inform their payer to withhold 20 percent. This will remain in effect for one year with a review of all such cases annually on October fifteenth. Those unresolved at that time will continue another year. This process has not progressed far enough for any taxpayers to be subjected to it yet. The first withholding will probably occur in FY 1987.

MR. ROYBAL: With IRS now using more of the paper information returns it receives and magnetic media accounting for more and more documents every year, the service should be in a position to develop a Payer Master File (PMF) which is quite extensive. The PMF can be used to foster compliance by identifying those payers who may not be providing IRS with third party income information. IRS' experience has been that when a payee receives a copy of the information return filed by the payer, the recipient is more likely to report that income on his or her return.

What is the current status of IRS' effort to develop an effective PMF and PMF program?

MR. EGGER: We have developed a payer stop-filer program which will compare current information return filings for each payer with that payer's previous year and a nonfiler program which will analyze other master files to identify entities which appear to be liable for filing information returns. We will also have the capability, as of May 1986, to post waivers for not filing on magnetic media and extensions for late filing of information returns, as well as the Form 8210 for Self-Assessed Penalties.

We have encountered processing problems with the transmittal documents that are at the core of the PMF. We will not solve this problem in time to use transmittal documents for 1985, but we will be able to process the 1986 transmittals next year. Then we will resume the nonfiler check for 1986 transmittals in 1988 and the stopfiler check in 1989. The timing of the stopfiler check is staggered because we base that analysis on the prior tax year history--in this instance that means 1986--and because processing time for the 1987 transmittals runs through the end of FY 1988. So, the 1987 stopfiler check won't occur until early 1989.

MR. ROYBAL: How does the IRS envision using the PMF as a compliance tool?

MR. EGGER: In addition to the payer compliance programs I just mentioned, the PMF will be used to generate penalty notices for late filing of information returns and for not filing on magnetic media when required. These will commence in June 1986.

MR. ROYBAL: Last year IRS stated that by fiscal year 1987 it would be able to follow-up on virtually all Information Returns Program cases with a balance due. Is this projection still valid? If so, what is the projected workload through fiscal year 1987?

MR. EGGER: With the resources requested in this budget we do expect to follow-up on virtually all non-filer and most underreporter balance due cases identified through the matching program.

Yes, the projections for underreporter follow-up would be around 4 million contacts for FY 1986 and to 5.5 million in FY 1987.

For non-filers, we expect to close 325,000 cases requiring follow-up beyond the notice stage for FY 1986 and 342,000 cases in FY 1987.

MR. ROYBAL: Will increases in resources be required? If not, then specifically what has IRS done to streamline processing procedures? Will tolerance levels be increased to reduce the caseload?

MR. EGGER: Yes, we are asking for 677 average positions to increase follow-up on underreporter cases in FY 1987. As far as streamlining procedures, we are studying enhancements to the current system that will automate some manual processes and eliminate some clerical functions. In the future, we are planning on implementing a fully automated underreporter system that would provide most data, except the tax return, needed to resolve the case on a computer terminal and would eliminate a separate data transcription process now used to issue underreporter notices.

We have also implemented a new process in the nonfiler program whereby the service prepares a tax return based on income on information documents when taxpayers are not responsive to delinquency notices and phone calls. We do this, which includes correspondence through registered mail, rather than sending out a revenue officer.

On the question of tolerances, when we limit caseload we try to gear our selection to categories where we get the most bang for our bucks rather than to a strict tolerance.

MR. ROYBAL: To what degree, if any, have improvements in ADP systems assisted in streamlining the processing procedures?

MR. EGGER: Well, we have implemented optical character recognition, or scanning, equipment in all ten service centers as of last year, but we have also streamlined processing of magnetic media receipts. Now all transmitters who file on magnetic media send their files to the National Computer Center rather than to the service centers. So, we have consolidated that process as well as the personnel who assist and respond to payers and their problems.

MR. ROYBAL: Beginning January 1, 1985, the responsibility for the coordination of all information documents received by IRS on magnetic media was moved to NCC. Transmitters of information on magnetic media now send the tapes directly to the magnetic media group at NCC rather than to one of the ten service centers. With respect to this organizational shift:

What occurs in those instances in which a transmitter corrects or updates a previously submitted tape using paper documents? Does NCC have the resources and equipment to properly transcribe the paper documents to magnetic tape?

MR. EGGER: As a point of clarification, as of January 1, 1985, responsibility for coordination of information documents formerly received by only the Austin, Kansas City and Philadelphia Service Centers was moved to NCC. Full responsibility for all information documents for the entire country was not moved to NCC until January 1, 1986.

In those instances in which a transmitter uses paper documents to correct or update records previously submitted on magnetic media, the paper documents must be filed with the appropriate service center — not NCC. NCC does not have the equipment or resources to scan and/or transcribe paper documents to magnetic media. The paper documents are processed through the service center, converted to tape and transmitted to NCC to be input to the mainline Information Returns Program system. During that IRP processing, the correction/update records are associated with the records originally filed on magnetic media.

MR. ROYBAL: With the magnetic media function now at NCC, what type of outreach or assistance programs have been established to deal with transmitters who may have technical questions on tape preparation, etc.?

MR. EGGER: NCC has developed a new organizational component to deal with the filing of information returns on magnetic media. The organization is named the Information Returns Branch. One of the major duties assigned to that branch is to provide service and technical assistance to filers of magnetic media. In order to meet this responsibility, personnel from the branch traveled extensively in the fall of 1985 and conducted 62 Magnetic Media Seminars in the areas of the country formerly serviced by the Austin, Kansas City and Philadelphia Service Centers. These seminars had total attendance in excess of 4,500 individuals representing several hundred payer institutions. In addition, presentations were made to various state banking associations and annual conferences of software houses, etc. These seminars will continue in the future and coverage will be expanded to the whole country.

A specialized phone system has been installed at NCC and twenty individual incoming phone lines are available to filers to call NCC with questions regarding filing requirements, record formats, or any other related issues. These incoming calls are answered by personnel of the Information Returns Branch. During a recent week in February 1986, incoming calls averaged between 500-600 per day.

THE DEPARTMENT OF THE TREASURY
ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1986
(Dollars in Thousands)

	Perm. Pos.	Ave. Pos.	Amount
1986 Appropriation (Continuing Resolution P.L. 99-190) Enacted by the Congress	82,648	86,779	3,642,776
Adjustments:			
Proposed program supplemental	2,456	4,950	200,000
Reductions under P.L. 99-177			(126,639)
Authorized Level for FY 1986	85,104	91,729	3,716,137
Estimate, FY 1987	88,433	93,884	4,097,772

SUMMARY OF BUDGET ESTIMATES BY APPROPRIATION FISCAL YEAR 1987

	Appropriation FY 1986		Authorized Level FY 1986		Budget Estimate FY 1987		Increase or Decrease 1-1 for 1987					
							Total Changes		Program Changes		Other Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
1. Salaries and Expenses	3,371	184,933	3,371	99,938	3,344	93,147	(27)	3,209	0	1,699	(31)	1,510
2. Processing Tax Returns	36,673	1,048,079	38,944	1,113,769	37,727	1,262,902	11,217)	49,133	179	51,132	(1,396)	(1,999)
3. Examination and Appeals	23,669	1,316,986	23,723	1,427,123	23,774	1,603,162	3,051	176,041	3,168	136,302	(117)	39,739
4. Investigation, Collection and Taxpayer Service	25,824	1,071,922	26,765	1,195,299	26,739	1,234,201	(27)	41,272	0	1,168	(27)	39,104
Unobligated balance		3,617										
Unobligated balance available start of year		(84,333)										
Unobligated balance available end of year		35,229										
Total appropriation, authorized level and budget estimate	91,537	3,574,397	93,724	3,716,137	93,584	4,097,772	1,344	371,635	3,042	187,304	(1,698)	83,831
Permanent positions established	91,537		85,101		88,433		3,332		3,159		(1827)	

February 5,1986

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987
(Dollars in Thousands)

	Appropriation 1			Appropriation 2			Appropriation 3			Appropriation 4			Total		
	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount
PROGRAM CHANGES:															
1 ADP program increases	5	0	1,099	59	59	37,016	60	60	11,388			1,660	84	82	51,762
2 Revenue initiative							2,777	2,300	94,483				2,777	2,300	94,483
3 Tax shelter initiative							479	465	20,630				479	465	20,630
4 Document matching initiative				373	660	17,117	146	138	3,864				419	792	20,981
Total Program Changes	5	0	1,099	383	679	54,133	3,379	3,162	130,382	0	0	1,660	3,759	3,842	187,894
OTHER CHANGES:															
Increases necessary to maintain current levels:															
1 Net cost of within-grade salary increase			554			2,959			5,051			3,870			12,341
2 Announcement of Treasuries									2,377			732			3,109
3 Full-year cost of FICA and medicare			9			67			143			90			309
4 Health benefits			135			1,392			2,179			1,393			5,287
5 Federal buildings fund			48			9,632			9,464			7,878			27,022
6 FTS and other communications			642			3,004			4,782			10,170			18,648
7 Printing and postage			6			14,348			1,513			1,497			17,229
8 Support services and facilities			360			4,141			2,496			2,553			10,070
9 Change in employment structure							139	132					139	132	
10 Annualization of ADP equipment and contract increases			442			33,115			2,766			6,086			42,825
11 Annualization of Unitary Tax							24	23	1,989				24	23	1,989
12 Enforcement expenses									2,000			213			2,213
13 Process additional returns				299	673	10,303							299	673	10,303
14 Maintain FY 1986 program levels proposed by P.L. 99-177			6,042			85,793			44,836			45,766			136,637
15 ADP reapplication	(204)	(204)	(362)	30	30	(60)			(60)	(90)	(90)	360	0	0	0
16 Inter-appropriation transfer	30	34	(790)	(57)	(57)	724	57	60	432	(30)	(37)	(366)	0	0	0
Subtotal, Other Increases	11	11	5,102	322	646	126,352	231	213	76,699	(90)	(127)	80,382	423	638	387,985
Reductions, nonrecurring costs and savings:															
1 Nonrecurring	(45)	(45)	(1,093)	(256)	(2,733)	(129,894)	(549)	(522)	(30,930)			(40,650)	(850)	(3,100)	(223,150)
Subtotal, Reductions etc:	(45)	(45)	(1,093)	(256)	(2,733)	(129,894)	(549)	(522)	(30,930)	0	0	(40,650)	(850)	(3,100)	(223,150)
Total Other Changes	(34)	(34)	3,990	(30)	(2,087)	(3,542)	(318)	(117)	45,769	(90)	(127)	39,624	(427)	(2,462)	85,854
Total Increase or Decrease in FY 1987 Compared with Proposed FY 1986 Authorized Level	(29)	(27)	5,189	349	(1,647)	97,133	3,292	3,045	176,841	(90)	(127)	41,292	3,332	1,360	271,688

INTERNAL REVENUE SERVICE

Summary of Budget Estimates

FISCAL YEAR 1986

The Continuing Resolution (P.L. 99-190) authorized $3,642.8 billion and 86,774 average positions for IRS operations for FY 1986. This level is being adjusted to reflect the sequestering of $156.6 million (4.3 percent) of budget authority as required by the Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177) and a supplemental funding proposal of $340 million and 6,950 average positions to:

-- restore effectiveness of tax processing;

-- improve taxpayer service;

-- strengthen tax enforcement; and,

-- meet unanticipated mandatory cost increases.

The proposed authorized level for FY 1986 is $3,826.2 billion and 93,724 average positions.

FISCAL YEAR 1987

The proposed budget for FY 1987 totals $4,097.8 billion and 95,084 average positions, an increase of $271.7 million and 1,360 average positions over the FY 1986 level. The thrust of the FY 1987 budget for the IRS is to collect additional tax and enhance compliance with the nation's tax laws by:

-- adding 2,500 average positions each year for a period of three years (FY 1987-1989) to examine tax returns and thus increase revenue collections by $4.7 billion during the three year period and retaining these resources in FY 1990 and FY 1991 to collect an additional $5.6 billion, for a total revenue gain of $10.3 billion;

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-- expanding document matching with emphasis on correcting erroneous taxpayer identification numbers and following-up on returns with apparent underreported income with additional revenue collected in FY 1987 of $167 million;

-- expediting resolution of tax shelter cases backlogged in administrative appeal and tax litigation, thus accelerating collection of revenues by $600 million;

-- continuing implementation of ADP modernization projects begun in prior years to (1) enhance tax enforcement efforts by automating the examination of tax returns, establishing a data base to identify and track persons who are abusing the withholding system; begin replacing terminals and communications processors needed to access taxpayer accounts; and establishing a payer master file to systematically monitor compliance by payers with information reporting; and (2) to procure and implement a cost-efficient ADP-based tax processing system; acquire digitized Automatic Cell Distributor/Private Branch Exchange (ACD/PBX) equipment to replace analog PBXs and ACDs; and automate the Service's financial system;

Within the overall budget the Internal Revenue Service will:

-- collect some $800 billion in tax revenues (net after refunds); $38 billion will result from direct enforcement of the tax laws (i.e., examining tax returns, collecting unpaid taxes, securing delinquent returns, and matching information reports);

-- process almost 180 million tax returns and issue almost 80 million refunds, including three million additional returns which result from higher employment rates;

-- assist almost 65 million taxpayers through direct assistance, including toll-free telephone service and taxpayer education;

-- continue to augment examination of domestic corporations having international activity;

-- continue to improve efficiency by devoting $2 million to finance productivity initiatives.

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Summary of Budget Estimates

IRS Operating Accounts - Resource Summary

	Average Positions	Amount (millions)
FY 1985 Appropriation	92,259	$ 3,574.1
FY 1986 Continuing Resolution Adjusted by:	86,774	$ 3,642.8
Sequestering of funds required by the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177)	-	- $ 156.6
Supplemental Proposed:		
Restore effectiveness of tax processing	+ 5,558	+ $ 140.2
Improve taxpayer service	+ 670	+ $ 40.8
Strengthen tax enforcement	+ 722	+ $ 116.8
Meet unanticipated mandatory cost increases	-	+ $ 42.2
Proposed FY 1986 Level	93,724	$ 3,826.2
FY 1987 Adjustments:		
Mandatory cost and workload increases	+ 628	+ $ 307.0
Nonrecurring costs	- 3,110	- $ 223.2
ADP program increases	+ 82	+ $ 51.8
Revenue initiative	+ 2,500	+ $ 94.4
Tax Shelter initiative	+ 465	+ $ 20.6
Document Matching initiative	+ 795	+ $ 21.0
FY 1987 Budget Request	95,084	$ 4,097.8
Difference, FY 1987 compared to the FY 1986 proposed level	+ 1,360	+ $ 271.6

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THE DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
Standard Classification Schedule
(Direct Obligations Only)

(Dollars in Thousands Except Actual Colusn Which Is In Whole Dollars)

	Appropriation 1985	Authorized Level 1986	Appropriation 1987	1987 Increases Over 1986
Total nuaber of permanent positions	79,837	85,101	88,433	3,332
Average paid employment	92,259	93,724	95,084	1,360
Object Classification				
Personnel Compensation:				
Permanent positions	1,978,661,174	2,125,793	2,030,777	(95,016)
Positions other than permanent	244,358,297	257,833	215,106	(42,727)
Other personnel compensation	71,342,377	97,378	98,193	815
Special personal service payments	5,393,169	9,322	9,322	0
				0
Total personnel compensation	2,299,755,017	2,450,326	2,313,598	(136,928)
				0
Personnel benefits	302,470,274	357,941	346,793	(11,148)
Benefits for former personnel	17,357,152	19,897	18,930	(967)
Travel and transportation of persons	91,951,005	113,965	121,337	7,372
Transportation of things	29,054,160	27,796	27,625	(171)
Standard level user charges	225,932,835	237,506	272,256	34,750
Rental payaents to others	476,592	1,312	687	
Other rent, communications and utilities	264,010,618	365,242	397,104	31,862
Printing and reproduction	79,637,907	86,406	94,461	8,055
Other services	174,114,200	229,336	222,914	(6,422)
Supplies and materials	36,339,795	45,228	53,117	7,889
Equipaent	77,496,136	80,272	69,593	(10,679)
Grants, subsidies and contributions	1,935,464	2,200	2,200	0
Insurance claims and indemnities	422,041	478	538	60
Undistributed		(156,639)	156,639	313,278
Total obligations	3,600,953,196	3,861,466	4,097,792	236,326
Unobligated balance	2,647,000			
Unobligated balance available start of year	(64,332,000)	(35,329)		35,329
Unobligated balance available end of year	35,329,000			
Total Appropriation, Authorized Level and Budget Estimates	3,574,597,196	3,826,137	4,097,792	271,655

INTERNAL REVENUE SERVICE

DETAIL OF PERMANENT POSITIONS

	Appropriation 1985	Authorized 1986	Estimated 1987
Executive Level III	1	1	1
Executive Level V	1	1	1
Subtotal	2	2	2
Direct program:			
ES-6	1	1	1
ES-5	6	6	6
ES-4	168	189	189
ES-3	54	45	45
ES-2	35	29	29
ES-1	14	10	10
Subtotal	278	280	280
GS-16	3	3	3
GS/GM-15	823	828	828
GS/GM-14	2,968	2,859	2,848
GS/GM-13	9,734	9,347	9,533
GS-12	10,089	10,125	10,039
GS-11	11,106	10,613	10,388
GS-10	396	450	450
GS-09	8,433	8,302	8,984
GS-08	1,034	1,093	1,093
GS-07	7,248	8,659	9,884
GS-06	6,988	6,153	6,988
GS-05	7,030	9,684	11,303
GS-04	10,584	11,643	11,650
GS-03	2,753	4,671	4,671
GS-02	63	90	90
GS-01	12	13	13
Subtotal	79,264	84,533	87,065

February 5, 1986

INTERNAL REVENUE SERVICE

DETAIL OF PERMANENT POSITIONS

	Appropriation 1985	Authorized 1986	Estimated 1987
Reimbursable program:			
GS-12.....	31	31	31
GS-11.....	9	9	9
GS-09.....	11	11	12
GS-07.....	22	22	23
GS-06.....	8	8	8
GS-05.....	84	90	94
GS-04.....	103	110	120
Subtotal	268	281	297
Grades established by the Administration Agency for International Development:			
FC-12,$50,495-$65,642	5	5	5
FC-11,$42,920-$55,807	6	2	2
FC-10,$36,327-$47,226	3	4	4
Subtotal	14	11	11
Ungraded.....	293	286	286
Total permanent positions	88,119	85,393	88,741
Unfilled positions,end of year	1,960	1,708	1,775
Total permanent employment , end of year	78,159	83,685	86,966

February 5,1986

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

ADMINISTRATIVE PROVISIONS - INTERNAL REVENUE SERVICE

Section 1. Not to exceed five per centum of any appropriations made available to the Internal Revenue Service for the current fiscal year by this Act may be transferred to any other Internal Revenue Service appropriation.

Explanation of Appropriation Language Change for FY 1987

This transfer authority is important for improving the Internal Revenue Service's ability to ensure balance and effectiveness in the administration of the tax system. It will enable the Service to react quickly and effectively to shifts in workload and backlogs which cross appropriation lines. This authority is critical for the Service to minimize disruptions to programs and redeploy staff in line with budgetary savings and reductions required in FY 1987.

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Section 2. Not to exceed fifteen per centum, or $15,000,000, whichever is greater, of any appropriation made available to the Internal Revenue Service for document matching for the current fiscal year by this Act may be transferred to any other Internal Revenue Service appropriation for document matching.

Explanation of Appropriation Language

The document matching program, internally referred to as the Information Returns Program (IRP), is one of several computerized correspondence compliance programs within the Internal Revenue Service. Under this program the Service systematically matches information returns, such as wage, interest and dividend statements, and income distribution schedules (K-1's), from partnership, fiduciary, and small business corporation tax returns, with the related income tax returns. Through this matching process, the Service is able to identify, verify and correct income reporting discrepancies or nonfiling of tax returns and to collect any additional tax due or refund any excess credits.

Structurally, resources for document matching are contained in three operating appropriations without specific transfer authority from one appropriation to another. Within each appropriation, these resources are budgeted by functional activity, specifically Returns Processing and Revenue Accounting in the Processing Tax Returns appropriation, Examination in the Examination and Appeals appropriation, and Collection and Taxpayer Service in the Investigation, Collection and Taxpayer Service appropriation.

Currently, only limited workload changes can be accommodated provided that they are entirely within the same appropriation. However, the flexibility to move resources between component activities for document matching is essential, even if the activities involved are in different appropriations. The transfer authority requested for document matching will provide for greater efficiency in allocating resources and for improved effectiveness in detecting underreporting of income and nonfiling of tax returns.

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Section 3. Funds appropriated for the Internal Revenue Service may be used to pay travel to the United States for the immediate family of employees serving abroad in cases of death or life threatening illness of said employee.

Explanation of Appropriation Language Change for FY 1987

Family emergency situations have arisen involving our employees and their families stationed abroad, which necessitated round-trip travel to the United States. We currently have no authority to reimburse their travel expenses in such situations. In a recent case, an IRS employee stationed abroad died in a hotel fire and we were unable to pay his widow's round-trip travel expenses to return to the United States for the funeral. The proposed language which would resolve this problem is similar to language contained in 22 USC 4081(9) which pertains solely to the Foreign Service.

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DOCUMENT MATCHING PROGRAM
(Information Returns Program)

The document matching program, internally referred to as the Information Returns Program (IRP), is one of several computerized, correspondence compliance programs within the Internal Revenue Service. Under this program, the Service systematically matches information returns such as wage, interest, and dividend statements, and income distribution schedules (K-1's) from partnership, fiduciary, and small business corporation tax returns with the related income tax returns. Through this matching process, the Service is able to identify income reporting or deduction discrepancies or nonfiling of tax returns which are verified and corrected and to collect any additional tax due or refund any excess credits.

The document matching program is divided into five major phases:

(1) input processing;
(2) perfection of documents with erroneous or missing social security numbers;
(3) correlation, or matching of documents with taxpayer account data;
(4) follow-up of cases with apparent underreporting of income; and,
(5) follow-up of cases with apparent non-filing of required returns.

For information documents related to a given tax year, it takes from three to four years to complete the document matching cycle. Using the program for tax year 1982 as an example, the major phases of the document matching cycle occur as follows. The information documents for tax year 1982 returns were received and processed during calendar year 1983. Taxpayer identification number (TIN) perfection also took place during that calendar year. Correlation, or the actual document matching, occurred during the first half of calendar year 1984. Taxpayer contact and follow-up activities to correct discrepancies began in the second half of calendar year 1984 and extended through calendar year 1985 and, for problem cases, into calendar year 1986.

Summary, Internal Revenue Service

Directly related to the matching program are efforts to ensure payer/employer compliance with information return filing requirements. These activities include periodic payer compliance checks using a Payer Master File linked to other master files to detect nonfiling of information returns and generate penalty notices, delinquency notices, and leads to field offices. The Service will also apply increased payer penalties established under the Tax Equity and Fiscal Responsibility Act of 1982 for failure to furnish correct TIN's. Back-up withholding established under the Interest and Dividend Tax Compliance Act of 1983, late filing penalties and penalties for failure to file magnetic media returns where required will also be applied. Information returns for mortgage interest payments required by the Deficit Reduction Act of 1984 will be processed and discrepancy cases will be produced in 1987.

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DOCUMENT MATCHING PROGRAM
(Information Returns Program)

Budget Activity	FY 1985 Actual		FY 1986 Estimate		FY 1987 Estimate	
	Average Positions	Amount ($000's)	Average Positions	Amount ($000's)	Average Positions	Amount ($000's)
Returns Processing	2,777	$65,519	2,703	$78,365	3,373	$102,058 1/
Examination	656	33,291	1,193	41,991	1,328	48,841
Collection	884	30,508	916	28,864	916	30,797
Taxpayer Service	150	5,757	150	4,746	150	5,027
Total	4,467	$135,075	4,962	$153,966	5,767	$186,723

Selected Workload Data
(Volume in millions)

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate
Information returns received	783	893	931
Information returns processed	773	868	905
Percentage processed	98.7%	97.2%	97.2%
Underreporter notices issued	4.100	4.250	5.500
Nonfiler investigations disposed	0.234	0.325	0.342

1/ Includes 56 average positions and $1.3 million for computer operations used to support this program at the National Computer Center.

DOCUMENT MATCHING PROGRAM
(Information Returns Program)
(Continued)

Selected Revenue Data
(Dollars in millions)

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate
Underreporter assessments:			
Returns Processing	$1,342	$1,364	$1,623
Examination	285	367	404
Total underreporter assessments	1,627	1,731	2,027
Nonfiler assessments	992	995	997
Information return penalties	25	276	288
Additional tax assessments and penalties	2,644	3,002	3,312
Less: Refunds	-292	-291	-298
Net tax assessments and penalties	$2,352	$2,711	$3,014

INTERNAL REVENUE SERVICE

Impact of
FY 1986 Gramm-Rudman-Hollings Budget Reduction

Description of impact on bureau programs:

The Gramm-Rudman-Hollings reduction to the Internal Revenue Service's budget for FY 1986 requires spending reductions in all four operating accounts. To accomplish the $156.6 million reduction in FY 1986, the following actions are being taken in many functions: restrict hiring; reduce administrative travel, overtime and discretionary training; freeze procurement of supplies, office equipment and furniture; suspend office alterations and use of outside contractors (management contracts, studies, tests, etc); and reduce selected ADP and systems modernization expenditures.

Effect on workload:

The impact of the Gramm-Rudman-Hollings reduction will fall heavily on administrative and support functions. The Service will continue to process tax returns, account for tax revenues and issue refunds and notices. The amount of revenue forecast ($ one billion) in the President's budget for the current year (FY 1986) should not be affected adversely, provided the program supplemental is approved as proposed.

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Effect on services:

The Service intends to meet its basic responsibilities to the public to process returns and issue refunds timely and accurately. We will provide information and assistance to taxpayers to help them comply with the tax laws and to resolve their account questions or concerns.

Effect on ability to fulfill bureau mission:

Since the Gramm-Rudman-Hollings reductions for FY 1986 are not being applied against tax filing operations, and direct revenue-producing programs, the Internal Revenue Service should not be adversely affected in its ability to fulfill its basic mission, provided that the program supplemental is approved as proposed.

Summary, Internal Revenue Service

EXPLANATION OF FISCAL YEAR 1987 BUDGET INCREASES AND DECREASES

PROGRAM CHANGES.....3,842 average positions and $187,804,000

1. ADP program increases.....82 average positions and $ 51,768,000

a. Staffing increase.....82 average positions and $ 3,565,000

Computations for position increases are made at the base of grade. Personnel benefits are costed at current rates for life insurance, health insurance, retirement, and FICA where applicable. Travel and support costs related to staffing increases are computed using rates based on past experience. Included is staffing for the Automated Examination System.

b. Non-staffing increase.....$ 48,203,000

Provide resources for rent and installation of ADP equipment, maintenance of computer equipment, data processing services, magnetic media, ADP computer and peripheral equipment, and other ADP supplies.

2. Revenue initiative.....2,500 average positions and $ 94,403,000

Provides funding for the first increment of the Revenue Initiative. It will increase staffing over the three year period by adding 2,500 average positions each year to the examination of tax returns.

Computations for position increases are made at the base of grade. Personnel benefits are costed at current rates for life insurance, health insurance, retirement, and FICA where applicable. Travel and support costs related to staffing increases are computed using rates based on past experience.

3. Tax shelter initiative.....465 average positions and $ 20,650,000

Funds are provided for additional staffing to reduce tax shelter case inventories within the Appeals and Tax Litigation functions.

Computations for position increases are made at the base of grade. Personnel benefits are costed at current rates for life insurance, health insurance, retirement, and FICA where applicable. Travel and support costs related to staffing increases are computed using rates based on past experience.

4. Document matching initiative.....795 average positions and $ 20,983,000

Provides funds to conduct follow-up examinations of returns selected by the document matching program that have potentially significant income underreporting.

Computations for position increases are made at the base of grade. Personnel benefits are costed at current rates for life insurance, health insurance, retirement, and FICA where applicable. Travel and support costs related to staffing increases are computed using rates based on past experience.

TOTAL OTHER CHANGES.....-2,982 average positions and $ 83,851,000

Increases.....628 average positions and $307,005,000

1. Net Cost of within-grade salary increase..... $ 12,141,000

The cost of within-grade salary advances, as determined from IRS payroll accounts total $27.3 million. After deducting for anticipated employee promotions, retirements and separations, the Service will need an additional $12.1 million, an increase of 0.73% in personnel compensation.

2. Advancement of trainees..... $ 3,309,000

Pursuant to formal Office of Personnel Management training agreements, the Service hires revenue agents, tax auditors, and attorneys at grades below the full working level for these occupations. Those employees who make satisfactory progress are advanced in grade until they reach the first full working level. Funds are requested to pay for these mandatory promotions.

3. Full-year cost of FICA and medicare..... $ 289,000

Recent changes in salaries, subject to FICA, increase the base from $41,800 to $43,200 requiring an additional $.289 million for FY 1987.

4. Health benefits..... $ 5,287,000

Indications from the Office of Personnel Management suggest that agencies' share of employee health benefits will increase on the average by ten percent, effective January, 1987. Accordingly, this percentage was applied to our FY 1986 base of $70.3 million resulting in an increase of $7.1 annually servicewide ($5.3 million for nine months).

5. Federal Buildings Fund..... $ 27,022,000

In accordance with Public Law 72-313, GSA is required to approximate commercial charges for comparable space and services. This request represents the increased cost necessary to maintain the same levels of space and services provided in FY 1986. Inflation increase is $18.9 million and overtime utilities requires $1.4 million.

6. FTS and other communications..... $ 18,648,000

These additional funds are requested to support current service operations and do not include enhancements. Contributing to increased communications costs is the normal tariff increases (9%). Also included are taxpayer growth costs (2.3%).

7. Printing and postage..... $ 17,229,000

Additional funds are needed to cover printing contract price escalations. The GPO inflation projection is 7 percent. Postage funds are required to cover costs resulting from compulsory mailouts such as the following: Payer Masterfile, TIN Penalty Withholding, Library Program, IRC 6020, Electronic Fund, Employee Plan Mailout, IRP Exam Postage, FMF Delinquent Notice, FTD Coupons and Service Center Lock Box.

8. Support services and facilities..... $ 10,070,000

These funds are to cover inflationary cost increases in services and supplies. $1.483 million is included for reimbursement to NARA and $.280 million for TIN Backup Withholding costs. Also included are funds to cover payroll/personnel system costs in FY 1987 ($3.4 million). The payroll/personnel costs reflect $2.42 per account for operation and development of personnel system and $30 per account for development and implementation of the enhanced payroll system. Servicewide, there are 105,000 payroll accounts.

9. Change in employment structure.....132 average positions and $ -0-

This results from a change in the mix of employment categories, with no additional cost to the Service.

10. Annualization of ADP equipment and contract increases..... $ 42,655,000

Provides full year funding for ADP Projects, which were initiated in FY 1986. Also provides funding necessary to continue ADP projects at FY 1986 levels. Included is funding for the Service Center Replacement System/Service Center Upgrade ($8.8 million) and the Realtime Input System ($12.4 million).

11. Annualization of Unitary Tax.....23 average positions and $ 1,000,000

Provides full year funding for staffing authorized in FY 1986 as a result of recommendations of the President's Worldwide Unitary Taxation Working Group. The Service will expand its audit activities with respect to international tax issues.

12. Enforcement expenses..... $ 2,213,000

Due to the growth in tax shelter case workloads, ($.2 million) and the additional costs of funding outside fee appraisals ($2.0 million).

13. Process additional returns.....473 average positions and $ 10,503,000

Provides for staff increase in uncontrollable workload-processing tax returns and issuing refunds. Primary tax returns are expected to reach 178.6 million -- up 2.7 million (2%) over FY 1986 budgeted level of 175.9 million. Supplemental documents (amended returns, extensions to file, etc.), are projected to reach 9.8 million -- up 700,000 over the FY 1986 level of 9.1 million. To process these additional returns and documents, 473 average positions at a cost of $10.5 million are required.

14. Maintain FY 1986 program levels reduced by P.L. 99-177..... $ 156,639,000

Restores the FY 1986 impact of the Budget and Emergency Deficit Control Act of 1985 which by law has only a one year effect.

15. ADP reapplication..... $ -0-

ADP resources redirected to other areas for the Automated Collection System and other ADP projects.

16. Inter-appropriation transfer..... $ -0-

The following inter-appropriation transfers will be made in FY 1987:

	Average Positions	Amount ($000's)
To realign Internal Audit based on revised internal audit plan		
From Returns Processing and Revenue Accounting	-2	- $ 88
From Computer Services	-3	- $ 132
To Examination	41	$1,771
From Appeals and Tax Litigation	-1	- $ 44
To Employee Plans and Exempt Organizations	2	$ 88
From Tax Fraud Investigations	-3	- $ 132
To Collection	7	$ 308
From Taxpayer Service	-42	- $1,815
To Enforcement Litigation and Rulings	1	$ 44
To realign research initiative		
From Management Services	-2	- $ 122

Summary, Internal Revenue Service

	Average Positions	Amount ($000's)
To Returns Processing and Revenue Accounting	9	$ 539
To Computer Services	5	$ 308
From Examination	-16	- $ 968
To Collection	4	$ 283
FY 1986 Administrative Services realignment		
From Executive Direction	- 5	- $ 87
To Management Services	42	$ 279
From Returns Processing and Revenue Accounting	-29	- $ 550
From Computer Services	-38	- $1,381
To Examination	20	$1,127
To Appeals and Tax Litigation	8	$ 263
From Employee Plans and Exempt Organizations	-18	- $ 562
From Tax Fraud Investigations	- 2	$ 33
To Collection	11	$ 718
To Taxpayer Service	5	$ 203
To Enforcement Litigation and Rulings	6	- $ 43
To realign ADP		
From Management Services	-	- $ 812
To Returns Processing and Revenue Accounting	-	$2,172
From Examination	-	- $2,292
To Collection	-	$ 932
Reorganization of Rulings Division		
To Appeals and Tax Litigation	24	$1,049
From Enforcement Litigation and Rulings	-24	- $1,049

Summary, Internal Revenue Service

	Average Positions	Amount ($000's)
To adjust Tax System Redesign base		
From Management Services	- 1	- $ 56
To Computer Services	1	$ 56

Reductions, non-recurring costs and savings.....-3,110 average positions and -$223,154,000

Nonrecurring.....-3,110 average positions and -$223,154,000

a. Other.....-3,065 average positions and -$165,623,000

Eliminates one time costs for training, equipment, space and housing and RPA IRP Postage. A reduction of -2,733 average positions and -$68,400,000 reflects a partial reduction of additional service center staffing requested in the FY 1986 Supplemental. Also eliminates initial FY 1986 costs for the Revenue Initiative (-332 average positions and -$14,450,000).

b. ADP.....-45 average positions and -$57,531,000

Eliminates funding for ADP projects which were completed in FY 1986. Also includes nonrecurring for the Detroit Data Center and the Automated Collection System.

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SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987
(Dollars in thousands)

	Pos.	Ave. Pos.	Total Cost	Personnel Compens.	Personnel Benefits	Benefits Former Personnel	Travel & Trans. of Persons	Trans. of Things	Rent, Commun. & Utilities	Print.	Other Serv.	Supplies and Materials	Equip.	Insurance Claims, and Indemnities	Undistributed
PROGRAM CHANGES:															
1 ADP program increases	84	82	51,768	3,761	416		1,007		34,093		3,362	5,701	2,468		
2 Revenue initiative	2,777	2,300	94,403	50,938	10,639		12,924	100	16,729	1,012		1,962			
3 Tax shelter initiative	479	463	20,650	11,980	2,324		1,140	19	1,764	143	1,172	269	1,839		
4 Document matching initiative	419	795	20,983	11,343	2,573		310	9	3,336	801	868	236	1,305		
Subtotal, Program Changes	3,739	3,842	187,804	78,024	15,972	0	15,381	216	56,113	1,956	5,402	8,248	5,612	0	0
OTHER CHANGES:															
Increases necessary to maintain current levels:															
1 Net cost of within-grade salary increase			13,141	10,919	1,722										
2 Advancement of trainees			3,309	2,884	425										
3 Full-year cost of FICA and medicare			299		299										
4 Health benefits			5,287		5,287										
5 Federal buildings fund			27,822						24,317		2,303				
6 FTE and other reannualizations			10,648						10,259		6		383		
7 Printing and postage			17,229					823	6,252	10,134					
8 Support services and facilities			10,070					138	600		6,330	1,544	1,310	60	
9 Change in employment structure	150	132	0	(170)	179		(5)								
10 Annualization of ADP equipment and contract increases			42,635	85	9		61		21,984	301	16,965	672	2,298		
11 Annualization of Unitary Tax	24	23	1,000	408	100		268	1	64	9	(73)	6	(161)		
12 Enforcement expenses			2,213								2,213				
13 Process additional returns	249	473	10,383	7,608	1,661		304		343		180	94	271		
14 Maintain FY 1986 program levels reduced by P.L. 99-177			156,639												156,639
Subtotal, Other Increases	423	628	307,005	31,890	9,172	0	928	962	72,001	10,744	28,334	2,274	4,001	60	156,639
Reductions, nonrecurring costs and savings:															
1 Nonrecurring	(850)	(3,110)	(223,194)	(131,351)	(21,905)		(5,093)	(25)	(33,995)	(3,972)	(14,473)	(352)	(12,498)		
Subtotal, Reductions etc	(850)	(3,110)	(223,194)	(131,351)	(21,905)	0	(5,093)	(25)	(33,995)	(3,972)	(14,473)	(352)	(12,498)	0	0
Total Other Changes	(427)	(2,482)	83,851	(109,661)	(12,333)	0	(4,165)	937	38,306	6,772	13,861	1,922	(8,497)	60	156,639
Total Increases or Decreases in FY 1987 Compared with Proposed FY 1986 Authorized Level	3,312	1,360	271,655	(31,637)	3,639	0	12,096	1,153	94,419	8,728	19,263	9,970	(2,873)	60	156,639

THE DEPARTMENT OF THE TREASURY
ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1986
(Dollars in thousands)

	Perm. Pos.	Ave. Pos.	Amount
1986 Appropriation (Continuing Resolution P.L. 99-190) Enacted by the Congress	2,330	2,071	99,000
Adjustments:			
Reductions under P.L. 99-177			(1,042)
Authorized Level for FY 1986	2,330	2,071	97,958
Estimate, FY 1987	2,313	2,044	95,167

DIGEST OF BUDGET ESTIMATES BY APPROPRIATION FISCAL YEAR 1987

	Appropriation FY 1985		Authorized Level FY 1986		Budget Estimate FY 1987		Increase or Decrease (-) for 1987					
							Total Changes		Program Changes		Other Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
1. Executive direction	126	6,857	127	8,398	122	8,749	(3)	441			(5)	441
2. Management services	2,145	98,998	1,944	81,630	1,922	86,390	(22)	4,760	4	1,099	(26)	3,660
Unobligated balance		165										
Unobligated balance available start of year		0										
Unobligated balance available end of year		1,980										
Total appropriation, authorized level and budget estimate	2,271	106,170	2,071	89,958	2,044	95,167	(27)	5,199	4	1,099	(31)	3,990
Permanent positions established	2,313		2,330		2,313		(29)		4		(33)	

February 3,1986

Salaries and Expenses, Internal Revenue Service

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987
(Dollars in Thousands)

	Activity 1			Activity 2			Total		
	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount
PROGRAM CHANGES:									
1 ADP program increases				6	4	1,699	6	4	1,699
Total Program Changes	0	0	0	6	4	1,699	6	4	1,699
OTHER CHANGES:									
Increases necessary to maintain current levels:									
1 Net cost of within-grade salary increase			30			331			361
2 Full-year cost of FICA and military			1			8			9
3 Health benefits			9			117			126
4 Federal buildings fund			3			45			48
5 FTE and other transactions			159			483			642
6 Printing and postage						6			6
7 Support services and facilities			71			289			360
8 Consolidation of ADP equipment and contract increases						660			660
9 Maintain FY 1986 program levels reduced by P.L. 99-177			300			3,662			4,042
10 ADP Recapitalization				(20)	(20)	(282)	(20)	(20)	(282)
11 Inter-appropriation transfer	(3)	(3)	(87)	39	39	(711)	36	36	(798)
Subtotal, Other increases	(3)	(3)	386	19	19	4,616	16	16	5,102
Reductions, nonrecurring costs and savings:									
1 Nonrecurring			(1259)	(403)	(403)	(1,367)	(403)	(403)	(1,692)
Subtotal, Reductions etc	0	0	(1259)	(403)	(403)	(1,367)	(403)	(403)	(1,692)
Total Other Changes	(3)	(3)	441	(384)	(384)	3,249	(31)	(31)	3,690
Total Increases or Decreases in FY 1987 Compared with Proposed FY 1986 Authorized Level	(3)	(3)	441	(384)	(378)	4,948	(259)	(27)	5,389

February 5, 1986

SUMMARY JUSTIFICATION OF FY 1987 BUDGET ESTIMATES

The Salaries and Expenses Appropriation provides funding for policy formulation and executive direction of the Internal Revenue Service, for management services, and for the centralized direction of activities which perform independent reviews of operations and protect the integrity of the Service. The appropriation consists of two activities: Executive Direction and Management Services.

Requested resources for the Salaries and Expenses Appropriation total 2,044 average positions and $95.1 million, a decrease of 27 average positions and an increase of $5.2 million from the revised FY 1986 level.

1. Executive Direction

The Executive Direction activity is composed of the following National Office components:

--the Commissioner of Internal Revenue, the Deputy Commissioner, and their immediate offices, including an executive secretariat, Public Affairs, the Equal Employment Opportunity Program, the Taxpayer Ombudsman and the staff of Assistant to the Commissioner (Legislative Liaison);

--the three Associate Commissioners for Operations, Policy and Management, and Data Processing and their immediate offices;

--the Chief Counsel, Deputy Chief Counsel, and immediate staff; and

--the immediate office of the Assistant Commissioner (Inspection).

Within this activity, the Commissioner and Deputy Commissioner establish the policies and objectives of the Internal Revenue Service and direct the Service's activities towards

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accomplishment of these objectives. The Associate Commissioners serve as the Commissioner's principal advisors on policy matters affecting operations, management, and data processing. The Chief Counsel advises and assists the Commissioner on legal matters affecting the Service's appeals, tax litigation and rulings programs. The Assistant Commissioner (Inspection) directs internal audit and internal security programs designed to protect Service integrity.

The following are some particular programs designed and managed within the Executive Direction activity:

--the Equal Employment Opportunity Program administers the Servicewide EEO Affirmative Action Program and the discrimination complaint processing function as well as Servicewide EEO program development and evaluation;

--the Public Affairs office encourages voluntary compliance with complex tax laws by communicating plain language information to the public through the media. It also publicizes enforcement initiatives and accomplishments to build up public confidence that those who violate the law will be punished;

--the Taxpayer Ombudsman administers the Problem Resolution Program, a Service-wide program for handling individual taxpayer complaints, represents taxpayers' interests and concerns in the Service's policy and decision making processes; and identifies areas of tax law or Service procedures that have a possible negative impact on taxpayers, and

--the Legislative Liaison program which develops legislative proposals, analyzes and assists in the implementation of legislation affecting Service operations, assists members of Congress and Congressional staff employees in understanding the tax administration system, monitors Congressional hearings and coordinates replies to an implementation of GAO reports.

FY 1987 Program

The budget proposed for Executive Direction totals 122 average positions and $8.7 million, a net decrease of five average positions reflecting realignment of administrative services and a net increase of $441,000 to cover mandatory costs.

2. Management Services

The Management Services activity develops and provides Servicewide policy for managing the human, logistical and financial resources needed to fulfill the Service's tax administration mission in a cost effective manner. Specifically, the following major programs are included under Management Services:

-- personnel and training;

-- logistics;

-- planning;

-- budget and accounting;

-- payroll and management information;

-- tax and operational research and development;

-- tax administration assistance to other governments;

-- administration of regulations governing the practice of representatives before the IRS and ATF;

-- disclosure and security;

-- design of tax forms and instructions.

FY 1987 Program

The FY 1987 Management Services request totals 1,922 average positions and $86.4 million, a decrease of 22 average positions and an increase of $4.7 million to cover mandatory costs over the revised level for FY 1986.

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DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

FEDERAL FUNDS

General and special funds:

SALARIES AND EXPENSES

For necessary expenses for the Internal Revenue Service, not otherwise provided; for executive direction and management services, and hire of passenger motor vehicles (31 U.S.C. 1343(b)); and services, as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner; $95,147,000, of which not to exceed $25,000 for official reception and representation expenses; and of which not to exceed $500,000 shall remain available until expended, for research. (Title 26, United States Code.)

SUMMARY OF EMPLOYMENT (NUMBER OF AVERAGE POSITIONS)

Principal Categories	Actual 1985	Estimated 1986	1987	Increases or Decreases for 1987 Total	Program Changes	Other
1. Executive Direction						
Full-time permanent	123	126	121	-5	0	-5
All other	3	1	1	0	0	0
Total	126	127	122	-5	0	-5
2. Management Services						
Full-time permanent	1,965	1,851	1,829	-22	4	-26
All other	180	93	93	0	0	0
Total	2,145	1,944	1,922	-22	4	-26
Appropriation Total						
Full-time permanent	2,088	1,977	1,950	-27	4	-31
All other	183	94	94	0	0	0
Total	2,271	2,071	2,044	-27	4	-31

Salaries and Expenses, Internal Revenue Service

EXPLANATION OF FISCAL YEAR 1987 BUDGET INCREASES AND DECREASES

PROGRAM CHANGES.....4 average positions and $ 1,699,000

1. ADP program increases.....4 average positions and $ 1,699,000

a. Staffing increase.....4 average positions and $ 199,000

Staffing is for the Automated Examination System. Computations for position increases are made at the base of grade. Personnel are costed at current rates for life insurance, health insurance, retirement, and FICA where applicable. Travel and support costs related to staffing increases are computed using rates based on past experience.

b. Non-staffing increase..... $ 1,500,000

Provide resources for data processing services to implement the Automated Financial System.

TOTAL OTHER CHANGES.....- 31 average positions and $3,490,000

Increases.....14 average positions and $5,182,000

1. Net Cost of within-grade salary increase..... $ 361,000

The cost of within-grade salary advances, as determined from IRS payroll accounts total $27.3 million. After deducting for anticipated employee promotions, retirements and separations, the Service will need an additional $12.1 million, an increase of 0.73% in personnel compensation of which $.3 million will be needed in this Appropriation.

2. Full-year cost FICA and medicare..... $ 9,000

Recent changes in salaries subject to FICA increase the base from $41,400 to $43,200 requiring an additional $9 thousand for FY 1987.

3. Health benefits..... $ 126,000

Indications from the Office of Personnel Management suggest that agencies' share of employee health benefits will increase on the average by ten percent, effective January, 1987. Accordingly, this percentage was applied to our FY 1986 base of $70.3 million resulting in an increase of $7.1 million annually ($5.3 million for nine months), of which $126,000 will be incurred in this Appropriation.

4. Federal Buildings Fund..... $ 48,000

In accordance with Public Law 92-313, GSA is required to approximate commercial charges for comparable space and services. This request represents the increased cost necessary to maintain the same levels of space and services provided in FY 1986.

5. FTS and other communications..... $ 642,000

These additional funds are requested to support current service operations and do not include enhancements. Contributing to increased communications costs is the normal tariff increases (9%).

6. Printing and postage..... $ 6,000

Additional funds are needed to cover printing contract price escalations. The GPO inflation projection is 7%. Postage funds are required to cover costs resulting from compulsory mailouts such as the "Electronic Fund".

7. Support services and facilities..... $ 360,000

These funds are to cover inflationary cost increases in services and supplies ($271,000). Also included are funds to cover the payroll/personnel system costs in FY 1987 ($89,000). The payroll/personnel costs reflect $2.42 per account for operation and development of personnel system and $30 per account for development and implementation of the enhanced payroll system.

8. Annualization of ADP equipment and contract increases..... $ 668,000

Provides full year funding for ADP projects, which were initiated in FY 1986. Also provides funding necessary to continue ADP projects at FY 1986 levels. Included is funding for contract increases for the Budget Preparation System and Local Automation in the Field and National Office.

9. Maintain FY 1986 program levels reduced by P.L. 99-177..... $ 4,042,000

Restores the FY 1986 impact of the Budget and Emergency Deficit Control Act of 1985 which by law has only a one year effect.

10. ADP reapplication.....-20 average positions and -$ 282,000

ADP resources redirected to other areas for the Automated Collection System and other ADP projects.

11. Inter-appropriation transfer.....34 average positions and -$ 798,000

The following inter-appropriation transfers will be made in FY 1987:

	Average Positions	Amount ($000's)
To realign research initiative		
From Management Services	-2	- $ 122
FY 1986 Administrative services realignment		
From Executive Direction	-5	- $ 87
To Management Services	42	$ 279
To realign ADP		
From Management Services	-	- $ 812
To adjust Tax System Redesign base		
From Management Services	-1	- $ 56

Salaries and Expenses, Internal Revenue Service

Reductions, nonrecurring costs and savings.....-85 average positions and -$ 1,692,000

Nonrecurring.....-85 average positions and -$ 1,692,000

a. Other..... -$ 135,000

Eliminates one time costs for training, space and housing, etc.

b. ADP.....-85 average positions and -$ 1,557,000

Eliminates funding for ADP projects which were completed in FY 1986.

THE DEPARTMENT OF THE TREASURY
Salaries and Expenses, Internal Revenue Service
Standard Classification Schedule
(Direct Obligations Only)

(Dollars in Thousands Except Actual Column Which Is In Whole Dollars)

	Appropriation 1985	Authorized Level 1986	Appropriation 1987	1987 Increases Over 1986
Total number of permanent positions	2,313	2,338	2,313	(25)
Average paid employment	2,271	2,071	2,044	(27)
Object Classification				
Personnel Compensation:				
Permanent positions	44,503,279	56,036	51,397	(5,439)
Positions other than permanent	3,078,936	1,058	1,058	0
Other personnel compensation	2,597,641	2,091	2,091	0
Special personal service payments	39,962	43	43	0
Total personnel compensation	70,219,798	60,028	54,589	(5,439)
Personnel benefits	7,976,578	8,036	7,568	(468)
Benefits for former personnel	0	0	0	0
Travel and transportation of persons	1,642,524	1,727	1,660	(67)
Transportation of things	253,387	299	298	(1)
Standard level user charges	5,131,269	4,124	4,721	597
Rental payments to others	79	1	1	0
Other rent, communications and utilities	2,632,989	5,038	7,102	2,064
Printing and reproduction	716,924	263	263	0
Other services	4,265,677	11,278	10,891	(387)
Supplies and materials	967,739	2,082	2,394	312
Equipment	8,920,261	1,996	1,490	(506)
Grants, subsidies and contributions	0	0	0	0
Insurance claims and indemnities	187,446	128	128	0
Undistributed	0	(4,042)	4,042	8,084
Total obligations	104,934,391	90,958	95,147	4,189
Unobligated balance	165,000			
Unobligated balance available start of year		(1,000)		1,000
Unobligated balance available end of year	1,000,000			
Total Appropriation, Authorized Level and Budget Estimates	106,119,391	89,958	95,147	5,189

Salaries and Expenses, Internal Revenue Service

AVERAGE GRADE AND SALARIES

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Average ES Salary	$67,556	$62,974	$62,974
Average GS Salary	$30,091	$23,857	$42,113
Average GS Grade	8.47	9.06	8.98

CONSULTING AND RELATED SERVICES
(Amounts in thousands)

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Consulting Services	34	167	167
Management and professional Services	59	288	288
Special Studies and Analyses	29	142	142
Management and Support Services for Research and Development	1,339	903	775
TOTAL	1,461	1,500	1,372

CONSULTING AND RELATED SERVICES

Consulting and related services are generally used on projects when sophisticated specialized knowledge or when additional related support services are not readily available within our existing expertise or personnel resources. Some of these projects include improving resource allocation and operational program procedures through mathematical models; establishing trends in the nature of international transactions, particularly regarding tax havens; continuing efforts to simplify tax returns; more accurately measuring and analyzing taxpayer reporting burdens; and assessing alternative technologies for the delivery of taxpayer service.

THE DEPARTMENT OF THE TREASURY
ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1986
(Dollars in thousands)

	Perm. Pos.	Ave. Pos.	Amount
1986 Appropriation (Continuing Resolution P.L. 99-190) Enacted by the Congress	17,989	23,131	1,065,000
Adjustments:			
Proposed program supplemental	1,053	5,813	198,364
Reductions under P.L. 99-177			(45,775)
Authorized Level for FY 1986	19,033	28,944	1,217,589
Estimate, FY 1987	19,282	27,327	1,262,992

BUDGET OF BUDGET ESTIMATES BY APPROPRIATION FISCAL YEAR 1987

	Appropriation FY 1986		Authorized Level FY 1986		Budget Estimate FY 1987		Increase or Decrease (-) for 1987					
							Total Changes		Program Changes		Other Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
1. Returns processing and revenue accounting	26,649	823,498	27,434	947,399	25,844	956,702	(1,590)	9,403	660	19,107	(2,250)	(9,704)
2. Computer services	1,635	225,972	1,510	266,474	1,483	306,390	(27)	39,730	10	26,948	(37)	4,782
Unobligated balance		1,125										
Unobligated balance available start of year		(44,332)										
Unobligated balance available end of year		20,229										
Total appropriation, authorized level and budget estimate	28,284	1,026,392	28,944	1,213,589	27,327	1,262,992	(1,617)	49,133	670	46,135	(2,287)	(4,922)
Permanent positions established	16,938		19,033		19,282		249		233		(16)	

February 5,1986

Processing Tax Returns, Internal Revenue Service

[illegible] EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1982
(Dollars in Thousands)

	Activity 1			Activity 2			Total		
	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount
PROGRAM CHANGES:									
1 ADP program increases			3,868	10	10	30,940	10	10	37,056
2 Document matching initiative	273	660	17,119				273	660	17,119
Total Program Changes	273	660	19,187	10	10	30,940	283	670	54,175
OTHER CHANGES:									
Increases necessary to maintain current levels:									
1 Net cost of within-grade salary increases			1,777			322			2,099
2 Full-year cost of FICA and workers			60			7			67
3 Health benefits			1,281			111			1,392
4 Federal buildings fund			9,632						9,632
5 FTS and other communications			2,851			203			3,054
6 Printing and postage			14,176			12			14,388
7 Support services and facilities			4,089			33			4,101
8 Annualization of ADP equipment and contract increases			2,353			30,762			33,115
9 Process additional returns	209	673	10,395				209	673	10,395
10 Maintain FY 1981 program level reduced by P.L. 99-177			29,192			16,607			45,798
11 ADP Recapitalization	20	20	1,757			(1,973)	20	20	(216)
12 Inter-appropriation transfer	(229)	(229)	2,673	(33)	(33)	(1,479)	(257)	(257)	926
13 Inter-activity transfer	2	2	70	(2)	(2)	(70)	0	0	0
Subtotal, Other Increases	209	466	80,899	(37)	(37)	44,043	232	446	124,892
Reductions, nonrecurring costs or savings:									
1 Nonrecurring	(286)	(2,733)	(89,793)			(40,861)	(286)	(2,733)	(129,654)
Subtotal, Reductions also	(286)	(2,733)	(89,793)	0	0	(40,861)	(286)	(2,733)	(129,654)
Total Other Changes	3	(2,266)	(8,894)	(37)	(37)	4,202	(54)	(2,287)	(4,762)
Total Increases or Decreases in FY 1982 Compared with Proposed FY 1982 Authorized Level	276	(1,606)	9,885	(27)	(27)	35,720	249	(1,617)	49,413

February 5, 1981

SUMMARY JUSTIFICATION OF FY 1987 BUDGET ESTIMATES

The Processing Tax Returns Appropriation provides funding for two activities: Returns Processing and Revenue Accounting, and Computer Services.

The Returns Processing and Revenue Accounting activity provides resources to process tax returns, account for tax revenues, issue refunds and notices, and process information returns for the document matching program. Processing performed by this activity is basic for tax administration and provides necessary input to almost all other IRS programs. Funding is contained in this activity for the National Computer Center; the ten IRS service centers; and for preparation of required statistical information on income and other aspects of the tax system. This activity includes the office of the Assistant Commissioner (Returns and Information Processing), the Returns Processing and Accounting Division in the National Office and the counterpart Assistant Regional Commissioners in the seven regional offices.

The Computer Services activity provides the primary support for Servicewide data processing requirements. The activity includes the Office of the Assistant Commissioner (Computer Services) and the newly established Office of the Assistant Commissioner (Tax System Redesign), which is responsible for the procurement and implementation of a modernized, cost-efficient tax system, featuring up-to-date ADP hardware, software, file structure, data communications, and security. Support provided by this activity includes comprehensive developmental data processing support for most Service programs, including the evaluation, development, and implementation of computer systems, software and hardware requirements. The Computer Services activity is also responsible for the design selection, development and implementation for Tax System Redesign. Almost two-thirds of the resources devoted to ADP and information technology are included in this appropriation, with the balance allocated to the other three operating accounts.

The budget proposed for the two activities financed under the Processing Tax Returns Appropriation totals 27,327 average positions and $1,262.9 million, a net decrease of 1,617 average positions and an increase of $49.1 million over FY 1986.

1. Returns Processing and Revenue Accounting

The Returns Processing and Revenue Accounting activity provides for the accounting of tax revenues and the processing of tax returns and related documents at the IRS service centers.

Processing Tax Returns, Internal Revenue Service

The Returns Processing and Revenue Accounting activity has a number of major responsibilities:

--maintaining national master files of the tax administration system;

--depositing tax receipts and maintaining general and subsidiary ledgers of tax revenue collected;

--processing tax returns, supplemental documents, federal tax deposits and associated documents;

--math verifying returns and computing tax liability;

--providing tax data for individual and business master files;

--issuing tax bills and notices of delinquency, and establishing delinquent accounts;

--issuing refunds and preventing duplicate refund payments;

--providing support through ADP technology for compliance functions to the extent funds are made available;

--answering taxpayer inquiries for account information, refund status, extensions of time to file, etc.;

--comparing information documents with tax returns to provide investigative leads of potential failures to file required tax returns, and identifying instances of overreporting and underreporting of tax liability;

--operating the Service's internal reporting system and providing statistical information for management control purposes; and

--providing operational guidance necessary to fully integrate ADP operations into the management processes in the district offices.

Processing Tax Returns, Internal Revenue Service

The establishment of national master files of tax accounts through data processing has opened avenues not only to the improvement of voluntary compliance, but also to the goals of better assistance to taxpayers and more equitable treatment of taxpayers. The following is an illustration of benefits to the taxpayer and to the Government as a result of math verification and validation of estimated payments:

MATH VERIFICATION AND VALIDATION
OF ESTIMATED PAYMENTS 1/

Fiscal Year	Underpayments (millions)	Overpayments (millions)	Offsets 2/ (millions)	Gross Yield 3/ (millions)	Net Yield 4/ (millions)
1985	$5,757.7	$2,825.0	$1,156.9	$9,739.6	$4,089.6
1984	$3,589.6	$2,471.6	$1,102.8	$7,164.0	$2,220.8
1983	$2,756.8 5/	$1,460.4 5/	$1,235.5	$5,452.7	$2,531.9
1982	$2,621.9	$1,333.0	$1,048.2	$5,003.1	$2,337.1
1981	$2,182.2	$1,223.9	$ 728.6	$4,134.7	$1,686.9

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1/ This table reflects the results of math verification for individual returns and validation of estimated payments on individual returns. Corporate, Employment, Exempt Organization, Employee Plan and other types of returns yield minimum amounts.

2/ Offsets are dollars of overpayments applied to existing liabilities.

3/ Gross Yield is the total of underpayments, overpayments, and offsets.

4/ Net Yield is the total of underpayments, less overpayments, plus offsets.

5/ Math verification data includes actual data for Forms 1040, and 1040A, plus estimated figures for Form 1040EZ.

This activity also funds the Statistics function which is responsible for publishing Statistics of Income Reports on the operation of income tax laws, as required by the Internal Revenue Code for the Congress and its committees; for administrative use by the Secretary of the Treasury and the Commissioner of Internal Revenue; and for the Federal benchmark statistical programs on income, wealth and finance.

FY 1987 Program

The resources requested for Returns Processing and Revenue Accounting total 25,844 average positions and $956.7 million, a decrease of 1,590 average positions and an increase of $9.4 million. This net increase reflects the following major adjustments.

A. ADP Program Increases ..... $2.1 million

Additional funding is requested for the following two ADP programs.

Integrated Telecommunications Network ..... $1.7 million

This represents the Processing Tax Returns Appropriation's prorated share of the Integrated Telecommunications Network which will provide for the use of state-of-the-art communications equipment and circuitry and the integration of voice, data, office automation and video communications into one system. These resources will be used to acquire digitized Automatic Call Distributor/Private Branch Exchange (ACD/PBX) equipment to replace analog PBX's and ACDs.

Service Center Cost Accounting/Integrated Management System ..... $0.4 million

These resources are needed to continue development of the Integrated Management System which replaces a 20 year old work planning and control system. It will provide service center managers with timely and accurate information for the decision making process. The Cost Accounting System will allow managers to see the true cost of their operation including rework cost for poor quality, and will increase the efficiency of service center operations.

FY 1987 Program

B. Document Matching Initiative ..... 660 average positions and $17.1 million

The document matching program systematically matches information returns such as wage, interest, and dividend statements, and income distribution schedules (K-1's) from partnership, fiduciary, and small business corporation tax returns with the related income tax returns. Through this matching process, the Service is able to identify income reporting and deduction discrepancies or nonfiling of tax returns. The Service will increase the volume of underreporter contacts in FY 1987 to 5.5 million notices, with a resulting increase in assessments of $229 million. In addition, the Service will expand its program to correct erroneous taxpayer identification numbers (TIN's) by assessing $25 million in additional payer penalties and by issuing 13.8 million warning letters to payees with incorrect TIN's.

C. Process Additional Returns ..... 473 average positions and $10.5 million

Current estimates indicate that almost 180 million tax returns and 10 million supplemental documents will be received and processed in FY 1987, 3.5 million more tax returns and supplemental documents than currently projected for FY 1986. Increases are needed for FY 1987 to process the additional returns and schedules; issue refunds, notices and tax bills; deposit and credit FTD's; detect duplicate refund payments; answer increased taxpayer inquiries for account information and refund status; and provide system acceptability testing.

2. Computer Services

The Computer Services activity provides comprehensive developmental data processing support for the Service, including the development, acquisition, installation, and evaluation of computer systems for tax administration. The Computer Services activity includes the Office of the Assistant Commissioner (Computer Services), the Software, Hardware, and Management Systems Divisions and the User Assistance and Computer Capacity Management Office. The activity also includes the Office of the Assistant Commissioner (Tax System Redesign), the Acquisition, User Requirements, Electronic Filing System, Implementation, and Knowledge System Offices.

The activity has these major responsibilities:

--maintaining all ADP systems that directly involve tax administration;

--implementing system modifications as required to maintain an effective system for processing tax returns and supporting documents;

--coordinating design, development and implementation for Tax System Redesign; and,

--providing support through ADP technology for compliance and other functions.

FY 1987 Program

The resources requested will be primarily devoted to maintaining existing ADP systems and continuing projects initiated in prior years, such as Integrated Data Retrieval System, Tax System Redesign, Automated Examination System and Information Returns Program enhancements. The request totals 1,483 average positions and $306.2 million, a net decrease of 27 average positions reflecting realignment of administrative services and a net increase of $39.7 million.

FY 1987 Program

A. ADP Program Increases ..... 10 average positions and $34.9 million

1. Integrated Data Retrieval System ..... $3.5 million

The Service has utilized the Integrated Data Retrieval System (IDRS) since the early 1970's to access and update tax information in taxpayer accounts and answer taxpayer questions on their account status. These resources are needed to begin replacement of the old IDRS terminals and the communications processors linking the terminals to the taxpayer account data bases.

2. Tax System Redesign ..... $2.5 million

Resources are needed to continue with efforts to procure and implement a cost-efficient ADP-based tax processing system featuring state-of-the-art hardware, software, file structure, data communications, and security.

3. Automated Examination System ..... 10 average positions and $24.9 million

These resources will allow us to continue with the acquisition of portable terminals to equip the remaining two-thirds of the Revenue Agent workforce and provide necessary staffing to support and maintain the system.

4. Information Returns Program (IRP) Modernization ..... $4.0 million

These resources are necessary for improvement of the IRP program by (1) improving operational characteristics of matching program (i.e., utilize amended and late information returns, combine multiple issues into single contacts, and automate statutory notice issuances for nonfilers); (2) establishing a comprehensive decision support system by consolidating broad-based, multi-functional IRP program data and maintaining it in a computerized environment necessary for its analysis and retrieval; and (3) ensuring payer compliance with information return filing requirements through analysis of a Payer Master File and other master files with appropriate follow-up or referral of generated leads.

Selected Workload Data 1/
(in thousands of returns)

	FY 1985 Actual	Estimate in FY 1986 Congressional Budget	Current Year's Estimate for FY 1986	FY 1987 Estimate
1. Tax Returns filed:				
a. Individual	99,442	104,406	103,778	105,452
b. Individual Declaration	34,225	36,113	34,536	35,171
c. Fiduciary	2,053	2,170	2,086	2,112
d. Partnership	1,717	1,813	1,852	1,926
e. Corporation	3,317	3,720	3,491	3,664
f. Estate	77	67	53	38
g. Gift	95	122	108	123
h. Employment	26,828	27,297	27,060	27,400
i. Exempt Organizations	431	444	426	435
j. Employee Plans	644	1,203	1,083	1,097
k. Alcohol, Tobacco & Firearms Returns 2/	397	664	551	351
l. Excise	796	713	844	855
Total Returns	170,021	178,732	175,868	178,622
2. Selected Supplemental Documents	8,198	8,874	9,124	9,789
Grand Total	178,219	187,607	184,992	188,411
3. Individual Refunds Scheduled	77,103	81,420	77,558	78,943

1/ May not add due to rounding.
2/ Costs reimbursed by the Bureau of Alcohol, Tobacco and Firearms.

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

FEDERAL FUNDS

General and special funds:

PROCESSING TAX RETURNS

For necessary expenses of the Internal Revenue Service not otherwise provided for; including processing tax returns; revenue accounting; computer services; and hire of passenger motor vehicles (31 U.S.C. 1343(b)); and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner; $1,262,902,000 which not to exceed $50,000,000 shall remain available until expended for systems modernization initiatives. (Title 26, United States Code.)

Explanation of Appropriation Language Change in FY 1987: amount only

Systems Modernization

In the FY 1987 budget to Congress, funds for ADP procurement (lease and purchase of equipment, contractual services, maintenance etc.) total $251 million. Based upon prior experience and the potential impact of vendor protests to GAO, we anticipate that about one-fourth of these procurements will slip beyond FY 1987. To cover this problem we have requested $50 million in no-year funds.

SUMMARY OF EMPLOYMENT (NUMBER OF AVERAGE POSITIONS)

Principal Categories	Actual 1985	Estimated 1986	1987	Increases or Decreases for 1987 Total	Program Changes	Other
1. Returns Processing and Revenue Accounting						
Full-time permanent	13,088	14,251	14,489	238	147	91
All other	11,361	13,183	11,355	-1828	513	-2341
Total	24,449	27,434	25,844	-1590	660	-2250
2. Computer Services						
Full-time permanent	1,558	1,490	1,463	-27	10	-37
All other	68	20	20	0	0	0
Total	1,626	1,510	1,483	-27	10	-37
Appropriation Total						
Full-time permanent	14,646	15,741	15,952	211	157	54
All other	11,429	13,203	11,375	-1828	513	-2341
Total	26,075	28,944	27,327	-1617	670	-2287

EXPLANATION OF FISCAL YEAR 1987 BUDGET INCREASES AND DECREASES

PROGRAM CHANGES.....670 average positions and $ 54,135,000

1. ADP program Increases..... 10 average positions and $ 37,016,000

a. Staffing Increases..... 10 average positions and $ 550,000

Staffing is for the Automated Examination System. Computations for position increases are made at the base of grade. Personnel are costed at current rates for life insurance, health insurance, retirement, and FICA where applicable. Travel and support costs related to staffing increases are computed using rates based on past experience.

b. Non-staffing increases..... $ 36,466,000

Provide resources for rent and installation of ADP equipment, maintenance of computer equipment, data processing services, magnetic media, ADP computer and peripheral equipment, and other ADP supplies.

2. Document matching initiative.....660 average positions and $ 17,119,000

Provides funds to conduct follow-up examinations of returns selected by the document matching program that have potentially significant income under-reporting.

Computations for position increases are made at the base of grade. Personnel benefits are costed at current rates for life insurance, health insurance, retirement, and FICA where applicable. Travel and support costs related to staffing increases are computed using rates based on past experience.

TOTAL OTHER CHANGES.....-2,287 average positions and - $ 5,002,000

Increases.....886 average positions and $128,852,000

1. Net cost of within-grade salary increase.....$ 2,059,000

The cost of within-grade salary advances, as determined from IRS payroll accounts total $27.3 million. After deducting for anticipated employee promotions, retirements and separations, the Service will need an additional $12.1 million, an increase of 0.73% in personnel compensation, of which $2 million will be needed in this Appropriation.

2. Full-year cost FICA and medicare.....$ 47,000

Recent changes in salary, subject to FICA, increase the base from $41,400 to $43,200 requiring an additional $47,000 for FY 1987 in this Appropriation.

3. Health benefits.....$ 1,392,000

Indications from the Office of Personnel Management suggest that agencies' share of employee health benefits will increase on the average by ten percent, effective January, 1987. Accordingly, this percentage was applied to our FY 1986 base of $70.3 million resulting in an increase of $7.1 million annually ($5.3 million for nine months), of which $1.4 million will be incurred in this Appropriation.

4. Federal Buildings Fund..... $ 9,632,000

In accordance with Public Law 92-313, GSA is required to approximate commercial charges for comparable space and services. This request represents the increased cost necessary to maintain the same levels of space and services provided in FY 1986. The inflation increase is $6.7 million and overtime utilities requires an additional $1 million.

5. FTS and other communications..... $ 3,058,000

These additional funds are requested to support current service operations and do not include enhancements. Contributing to increased communication costs is taxpayer growth (2.3%).

6. Printing and postage..... $14,208,000

Additional funds are needed to cover printing contract price escalations. The GPO inflation projection is 7 percent, of which $5.6 million is included in this Appropriation. Postage funds ($5.5 million) are required to cover costs resulting from compulsory mailouts such as the following: Payer Masterfile, TIN Penalty/Backup Withholding, Library Program, IRC 6020, Electronic Fund, Employee Plan Mailout and FTD Coupons ($2 million). Funds are also included for Service Center Lockbox ($1 million) and taxpayer growth ($2.5 million).

7. Support services and facilities..... $ 4,141,000

These funds are to cover inflationary cost increases in services and supplies. $1.483 million is included for reimbursement to NARA and $.260 million for TIN Backup Withholding costs. Also included are funds to cover payroll/personnel system costs in FY 1987. The payroll/personnel costs reflect $2.42 per account for operation and development of personnel system and $30 per account for development and implementation of the enhanced payroll system.

8. Annualization of ADP equipment and contract increases..... $33,115,000

Provides full year funding for ADP projects, which were initiated in FY 1986. Also provides funding necessary to continue ADP projects at FY 1986 levels. Included is funding for the Realtime Input System ($12.4 million) and the Service Center Replacement System/Service Center Upgrade ($8.8 million).

9. Process additional returns.....473 average positions and $10,503,000

Provides for staff increase in uncontrollable workload-processing tax returns and issuing refunds. Primary tax returns are expected to reach 178.6 million -- up 2.7 million (2%) over FY 1986 budgeted level of 175.9 million. Supplemental documents (amended returns, extensions to file, etc.) are projected to reach 9.8 million -- up 700,000 over the FY 1986 level of 9.1 million. To process these additional returns and documents, 473 average positions at a cost of $10.5 million are required.

10. Maintain FY 1986 program levels reduced by P.L. 99-177.....$ 85,795,000

Restores the FY 1986 impact of the Budget and Emergency Deficit Control Act of 1985 which by law has only a one year effect.

11. ADP reapplication.....30 average positions and -$ 18,000

Reapplication of funds for ADP projects. Included is funding for Automated Collection System (30 average positions and $1,957,000) and resources redirected to other areas (-$1,975,000).

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12. Inter-Appropriation Transfer.....-57 average positions and $ 924,000

The following inter-appropriation transfers will be made in FY 1987:

	Average Positions	Amount ($000's)
To realign Internal Audit		
From Returns Processing and Revenue Acct.	-2	-$ 88
From Computer Services	-3	-$ 132
To realign research initiative		
To Returns Processing and Revenue Acct.	9	$ 539
To Computer Services	5	$ 308
FY 1986 Administrative Services realignment		
From Returns Process and Revenue Acct.	-29	-$ 550
From Computer Services	-38	-$1,381
To realign ADP		
To Returns Processing and Revenue Acct.	-	$2,172
To adjust Tax System Redesign base		
To Computer Services	1	$ 56

Reduction, nonrecurring costs and savings.....-2,733 average positions and -$129,854,000

Nonrecurring.....-2,733 average positions and -$129,854,000

a. Other.....-2,733 average positions and -$ 94,190,000

Eliminates one time costs for training, equipment, space and housing and IRP RPA Postage. A reduction of -2,733 average positions and -$68,400,000 reflects a partial reduction of additional service center staffing requested in the FY 1986 Supplemental.

b. ADP..... -$35,664,000

Eliminates one time costs of ADP funds.

THE DEPARTMENT OF THE TREASURY
Processing Tax Returns, Internal Revenue Service
Standard Classification Schedule
(Direct Obligations Only)

(Dollars in Thousands Except Actual Column Which Is in Whole Dollars)

	Appropriation 1985	Authorized Level 1986	Appropriation 1987	1987 Increases Over 1986
Total number of permanent positions	16,920	19,033	19,282	249
Average paid employment	26,075	28,944	27,327	(1,617)
Object Classification				
Personnel Compensation:				
Permanent positions	323,649,331	396,409	362,038	(34,371)
Positions other than permanent	146,613,783	189,456	146,628	(42,828)
Other personnel compensation	39,388,582	15,466	16,039	573
Special personal service payments	39,031	304	304	0
Total personnel compensation	509,690,927	601,635	525,009	(76,626)
Personnel benefits	63,937,845	88,265	80,203	(8,062)
Benefits for former personnel	17,292,835	19,897	18,930	(967)
Travel and transportation of persons	9,306,638	11,065	12,097	1,032
Transportation of things	21,707,326	20,619	20,485	(134)
Standard level user charges	67,124,645	69,043	80,183	11,140
Rental payments to others	135,231	969	287	(682)
Other rent, communications and utilities	149,828,967	201,212	215,246	14,034
Printing and reproduction	35,626,344	66,694	72,842	6,148
Other services	105,340,694	152,328	133,002	(19,326)
Supplies and materials	17,944,796	22,710	28,973	6,263
Equipment	30,525,973	39,369	29,747	(9,622)
Grants, subsidies and contributions	0	0	0	0
Insurance claims and indemnities	7,910	87	103	16
Undistributed	0	(45,795)	45,795	91,590
Total obligations	1,048,470,129	1,248,098	1,262,902	14,804
Unobligated balance	1,125,000			
Unobligated balance available start of year	(64,332,000)	(34,329)		34,329
Unobligated balance available end of year	34,329,000			
Total Appropriation, Authorized Level and Budget Estimates	1,019,592,129	1,213,769	1,262,902	49,133

February 3, 1986

AVERAGE GRADE AND SALARIES

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Average ES Salary	$67,500	$68,564	$68,564
Average GS Salary	$21,807	$20,995	$21,101
Average GS Grade	6.47	6.61	6.59

CONSULTING AND RELATED SERVICES
(Amounts in thousands)

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Consulting Services	128	220	91
Management and professional Services	223	380	156
Special Studies and Analyses	110	187	77
Management and Support Services for Research and Development	595	753	930
TOTAL	1,056	1,540	1,254

CONSULTING AND RELATED SERVICES

Consulting and related services are generally used on projects when sophisticated specialized knowledge or when additional related support services are not readily available within our existing expertise or personnel resources. Some of these projects include improving resource allocation and operational program procedures through mathematical models; establishing trends in the nature of international transactions, particularly regarding tax havens; continuing efforts to simplify tax returns; more accurately measuring and analyzing taxpayer reporting burdens; and assessing alternative technologies for the delivery of taxpayer service.

THE DEPARTMENT OF THE TREASURY
ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1986
(Dollars in thousands)

	Perm. Pos.	Ave. Pos.	Amount
1986 Appropriation (Continuing Resolution P.L. 99-190) Enacted by the Congress	37,005	35,436	1,619,451
Adjustments:			
Proposed program supplemental	693	487	68,706
Reductions under P.L. 99-177			(61,036)
Authorized Level for FY 1986	37,698	35,923	1,627,121
Estimate, FY 1987	40,850	38,974	1,803,162

DIGEST OF BUDGET ESTIMATES BY APPROPRIATION FISCAL YEAR 1987

	Appropriation FY 1985		Authorized Level FY 1986		Budget Estimate FY 1987		Increase or Decrease (-) for 1987					
							Total Changes		Program Changes		Other Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
1. Examination	29,809	1,114,945	29,922	1,172,079	32,484	1,315,191	2,562	143,113	2,694	109,236	(132)	33,877
2. Appeals and tax litigation	3,662	167,263	3,699	139,971	4,097	188,888	997	28,934	966	28,694	31	8,140
3. Employee plans and exempt organizations	2,618	98,398	2,401	95,869	2,393	99,163	(8)	4,094	8	372	(16)	3,722
Unobligated balance		665										
Total appropriation, authorized level and budget estimate	35,989	1,377,122	35,923	1,427,121	38,974	1,603,162	3,951	176,041	3,668	138,302	(117)	45,739
Personnel positions established	36,332		37,698		40,850		3,152		3,670		(318)	

February 3,1986

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987
(Dollars in Thousands)

	Activity 1			Activity 2			Activity 3			Total		
	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount
PROGRAM CHANGES:												
1 ADP program increases	39	39	10,967	1	1	44	0	0	372	40	40	11,383
2 Revenue initiative	2,777	2,300	91,403							2,777	2,300	91,403
3 Tax shelter initiative				479	465	20,650				479	465	20,650
4 Document matching initiative	146	135	3,864							146	135	3,864
Total Program Changes	2,962	2,694	109,236	480	466	20,694	0	0	372	3,470	3,160	130,302
OTHER CHANGES:												
Increases necessary to maintain current levels:												
1 Net cost of within-grade salary increase			4,729			785			417			5,931
2 Advancement of trainees			2,144			179			263			2,577
3 Full-year cost of FICA and medicare			116			18			9			143
4 Health benefits			1,923			89			167			2,179
5 Federal buildings fund			8,076			736			692			9,464
6 FTS and other communications			3991			671			330			4,792
7 Printing and postage			1,311			190			97			1,598
8 Support services and facilities			2,442			343			691			2,986
9 Change in employment structure	130	132								130	132	
10 Annualization of ADP equipment and contract increases			2,130			636						2,786
11 Annualization of Unitary Tax	24	23	1,000							24	23	1,000
12 Enforcement expenses			2,000									2,000
13 Maintain FY 1986 program levels reduced by P.L. 99-177			99,852			7,824			4,160			61,836
14 ADP Reapplication			(600)									(600)
15 Inter-appropriation transfer	48	48	(362)	27	31	1,260	(13)	(16)	(470)	37	60	432
Subtotal, Other Increases	219	200	79,382	27	31	11,896	(13)	(16)	3,777	231	223	95,689
Reductions, nonrecurring costs and savings:												
1 Nonrecurring	(349)	(332)	(45,429)			(3,000)			(2,073)	(349)	(332)	(50,750)
Subtotal, Reductions etc:	(349)	(332)	(45,429)	0	0	(3,000)	0	0	(2,073)	(349)	(332)	(50,750)
Total Other Changes	(330)	(132)	33,877	27	31	8,140	(13)	(16)	1,722	(310)	(117)	45,739
Total Increases or Decreases in FY 1987 Compared with Proposed FY 1986 Authorized Level	2,632	2,562	143,113	507	497	28,834	(7)	(8)	6,094	3,132	3,051	176,041

February 5, 1986

SUMMARY JUSTIFICATION OF FY 1987 BUDGET ESTIMATES

The Examination and Appeals Appropriation provides funding for three activities: Examination, Appeals and Tax Litigation, and Employee Plans and Exempt Organizations.

The Examination activity is the Service's primary program for determining taxpayers' correct income and tax liability. To do this, the Service examines taxpayers' books and records to verify reported income and deductions, uncover unreported income, and validate exemptions and credits. This activity includes: the Office of the Assistant Commissioner (Examination) at the National Office, the offices of the Assistant Regional Commissioners (Examination), and Examination personnel in district offices and service centers.

The Appeals and Tax Litigation activity is primarily involved with those cases in which taxpayers disagree with examination results. The Appeals function provides an independent administrative review with the objective of reaching impartial settlement. Appeals activities are performed in seven Regional Directors of Appeals offices and forty-four other Appeals offices under the functional direction of the National Office Appeals Division within the Office of the Chief Counsel. For those cases that cannot be resolved through the Appeals process, the Tax Litigation function represents the Service. Tax Litigation activities are performed in seven Regional Counsel offices and fifty-three District Counsel offices under the functional direction of the National Office Tax Litigation Division within the Office of the Chief Counsel.

The Employee Plans and Exempt Organizations activity is responsible for maintaining compliance with certain tax laws by monitoring employee pension plans, by determining the qualifications of organizations seeking tax-exempt status, and by examining the returns of exempt organizations. The Employee Plans function is mainly staffed at ten key districts and several associate districts with managerial and program development staff in regional offices and at the National Office. The Exempt Organizations function, which monitors organizations exempt from federal income tax, funds auditors in district offices along with managerial and program development staff in regional offices and at the National Office. Functional supervision for both programs is provided by the Assistant Regional Commissioner (Examination) in each region and by the Assistant Commissioner (EP/EO) in the National Office.

The budget proposed for the three activities financed in the Examination and Appeals Appropriation totals 38,974 average positions and $1,603.2 million, a net increase of 3,051 average positions and $176.0 million over FY 1986.

1. Examination

The Examination activity is conducted by Examination Division personnel in district offices and service centers. Functional supervision is provided by the Assistant Commissioner (Examination) in the National Office and by the Assistant Regional Commissioner (Examination) under the Regional Commissioner in each region. The Examination activity supports the mission of the Service by maintaining an enforcement presence and encouraging taxpayers to correctly report income, estate, gift, employment, and certain excise taxes. This should instill the highest degree of public confidence in the tax system's integrity, fairness, and efficiency. Accomplishment of these goals requires:

-- measuring the degree of voluntary compliance as reflected on filed returns;

-- reducing noncompliance by identifying and allocating resources in a cost effective manner to those returns most in need of examination and taxpayer contact; and

-- conducting, on a timely basis, quality examinations of tax returns and quality taxpayer contact to determine the correct tax liability.

A sound Examination program is necessary if the public is to have confidence that the tax laws are being enforced firmly and equitably.

The Examination program is based primarily on a strategy to optimize the potential tax yield produced by the application of the requested resources with appropriate efforts to strengthen the relatively low rate of voluntary compliance in some examination classes.

Each year return filings have increased; individuals have increased their use of schemes to avoid taxes due; and tax laws have become more complex. Even with an expanding and more difficult workload, revenue from the Examination program has increased substantially in recent years, reflecting improvements in effectiveness and efficiency and the shift of Examination efforts into more complex but also more productive returns.

FY 1987 Program

The resources requested for FY 1987 total 32,484 average positions and $1,315.2 million. This represents an increase of 2,562 average positions and $143.1 million over the FY 1986 level.

Examination plans to audit about 1.7 million returns in district offices and service centers and to make 1.1 million service center contacts and Employee's Withholding Allowance Certificate (W-4) program contacts in FY 1987. These include follow-up on underreporting of income disclosed by matching information return filings with taxpayers' returns.

The Internal Revenue Service will continue special initiatives to uncover unreported income. Examination will review questionable Forms W-4 submitted by employers in accordance with regulations. The purpose of the program is to ensure that employees file proper Forms W-4 with their employers.

On the basis of past experience, the Service estimates that the additional tax recommended from examinations and contacts in FY 1987 will total approximately $16.2 billion, an increase of about $1.5 billion over that estimated for FY 1986. Additional tax, penalties and interest ultimately assessed from these recommendations is estimated to be $15.7 billion.

This request includes an increase of 2,500 average positions and $94.4 million as the first installment of a planned revenue initiative, 59 average positions and $6.1 million to continue implementation of the Automated Examination System (AES), $3.2 million to establish an automated network for the questionable Forms W-4 program, 135 average positions and $3.9 million for the document matching program to complete followups on underreported income cases, and $1.7 million for establishing the Integrated Telecommunications Network.

Revenue Initiative

The President's budget message for fiscal year 1986 proposed that a major revenue initiative for the examination of tax returns be included in the budget for fiscal year 1987 and beyond. This initiative, which is also endorsed by the President's Private Sector Survey on Cost Control (Grace Commission), will increase collected revenue by $4.7 billion over the next three years and $10.3 billion between FY 1987-1991 by adding 2,500 average positions each year

for three years to the examination of tax returns. The Service will begin advance hiring late in FY 1986 to ensure full revenue potential in FY 1987. In FY 1987, the Service will examine 120,000 additional tax returns. Additional tax, penalties and interest ultimately assessed from these examinations is estimated to be $829 million.

Automated Examination System (AES)

The principle objectives of the Automated Examination System (AES) are to increase productivity, reduce costs, and improve taxpayer compliance by streamlining and automating the Examination function. The entire system will be implemented in specific phases: portable microcomputers will be provided to all revenue agents in FY 1986 and 1987, with the next phase, scheduled for full implementation in FY 1989, providing desktop/minicomputers to tax auditors, tax examiners, appeals officers, and management and support personnel. Savings from automation are being reinvested to collect additional tax revenues. Over the systems life, $10 billion in revenue gains and savings should result from the systems life cost of $1 billion.

Integrated Telecommunications Network

An additional $1.7 million is requested to fund a portion of the Integrated Telecommunications Network. These funds are part of a Servicewide request for the Integrated Telecommunications Network which will provide modern communications equipment and circuitry. The network will integrate voice, data, office automation and video communications into one system. These resources will be used to acquire digitized Automatic Call Distributor (ACD) and Private Branch Exchange (PBX) equipment to replace the analog ACD's and PBX's that are currently in use.

	1985 Actual	1986 Estimate	1987 Estimate
Average Positions			
Revenue Agents	13,554	14,671	15,866
Tax Auditors	3,513	3,761	3,796
Other	11,942	11,490	12,822
Total	29,009	29,922	32,484

	1985 Actual	1986 Estimate	1987 Estimate
Selected Workload Data (in thousands)			
Returns Filed and Corrected			
All Types			
Returns filed (prior calendar year)	130,004	139,139	140,456
Examinations	1,459	1,324	1,666
Contacts	804	1,093	1,063
Total	2,263	2,417	2,729
Income, Estate, Gift and Partnerships			
Returns filed (prior calendar year)	103,329	111,380	112,373
Examinations	1,380	1,271	1,596
Coverage (%)	1.34	1.14	1.42
Contacts	804	1,093	1,063
Examinations & Contacts (%)	2.19	2.18	2.43

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	1985 Actual	1986 Estimate	1987 Estimate
Selected Revenue Data (billions of dollars)			
Additional Tax Recommended			
Examinations	$ 17.1	$ 14.2	$ 15.7
Contacts	.6	.5	.5
Total	$ 17.7	$ 14.7	$ 16.2
Additional Tax Assessed			
Tax and Penalties	$ 12.9	$ 10.8	$ 11.7
Interest	4.8	3.6	4.0
Total	$ 17.7	$ 14.4	$ 15.7

2. Appeals and Tax Litigation

Appeals activities are performed in seven Regional Directors of Appeals offices and forty-four other Appeals offices under the functional direction of the National Office Appeals Division within the Office of the Chief Counsel. The Appeals program offers taxpayers an independent administrative review of contested tax assessments proposed by the Examination activity, of certain penalties assessed by service centers and the Collection program, and of certain determinations made by the Employee Plans and Exempt Organizations programs. It provides taxpayers an opportunity to resolve disputes with the least possible delay and encourages compliance by maintaining public confidence in the Service's ability to administer the tax laws fairly and impartially.

Tax Litigation functions are performed in seven Regional Counsel offices and fifty-four District Counsel offices under the functional direction of the National Office Tax Litigation Division within the Office of the Chief Counsel. Chief Counsel attorneys represent the Commis-

sioner in all Tax Court proceedings conducted throughout the United States. Issues not resolved through the Appeals process must be closed out by District Counsel settlement or by adjudication in the Tax Court. In addition, the attorneys from Chief Counsel provide legal position papers and assistance to Department of Justice attorneys on refund cases, appeal, and certiorari actions, and furnish legal support to the Examination and Appeals operating offices on a day-to-day basis.

FY 1987 Program

Resources of 4,097 average positions and $188.8 million are requested in FY 1987 for Appeals and Tax Litigation, an increase of 497 average positions and $28.8 million above the FY 1986 level.

The FY 1987 program level for Appeals will allow for completion of over 74,000 work units and 4,000 penalty appeals and EP/EO determination disposals.

In Tax Litigation, the total program level of 670 attorneys will allow for over 50,000 Tax Court and Refund case closures. Due to the increase in case receipts as a result of the tax shelter and revenue initiatives, ending inventory will reach almost 126,000.

Tax Shelter Initiative

An initiative is proposed to reduce the number of tax shelter cases (representing some 372,000 returns) now in inventory. Failure to increase staffing for Appeals and Tax Litigation will only shift the bottleneck of these tax shelter cases from IRS to the Tax Court. With the additional staffing requested, we will be able to close almost 15,000 additional appeals and resolve over 11,000 additional cases in tax litigation. The tax shelter initiative will accelerate the collection of tax revenues by some $600 million in FY 1987.

	1985 Actual	1986 Estimate	1987 Estimate
Average Positions			
Appeals Officers	1,050	1,101	1,240
Appeals Auditors	177	180	205
Attorneys	572	603	670
Other	1,863	1,716	1,982
Total	3,662	3,600	4,097
Selected Workload Data (in thousands)			
Appeals			
Work Unit Disposals	63.9	63.6	74.1
Penalty Appeals and EP/EO Determination Disposals	4.0	4.0	4.0
Average Work Unit Inventory per Appeals Officer	63.3	101.1	98.5
Ending Inventory-Work Units/Penalty Appeals	66.5	109.6	120.2
Tax Litigation			
Tax Court and Refund Case Receipts	50.8	68.0	71.6
Tax Court and Refund Case Closures	36.1	43.5	50.1
Ending Inventory	82.2	106.7	125.9

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3. Employee Plans and Exempt Organizations

Resources of 2,393 average positions and $99.2 million are requested in FY 1987 for Employee Plans and Exempt Organizations, a decrease of 8 average positions and an increase of $4.1 million over FY 1986.

a. Employee Plans

The aim of the Employee Plans function is to ensure voluntary compliance with those provisions of the Internal Revenue Code applicable to employee pension plans. This includes processing applications for new and amended pension plans and terminated plans within the 270-day declaratory judgement period; issuing opinion letters on qualified master and prototype plans and IRA plans; examining returns; providing for taxpayer guidance and assistance; issuing rulings to taxpayers; overseeing actuarial determinations and interpretations; providing for the enrollment of actuaries; and coordinating the administration of the Employee Retirement Income Security Act of 1974 (ERISA) with other government agencies.

FY 1987 Program

Field resources will primarily be devoted to handling the substantial volume of determination letter applications that are resulting from the passage of the Tax Equity and Fiscal Responsibility Act of 1982, the Retirement Equity Act of 1984 and the Deficit Reduction Act of 1984. These acts require the amendment of virtually every qualified retirement plan in order for these plans to retain their qualified status under the Internal Revenue Code. It is estimated that the Service will review approximately 267,000 employee plan amendments, plan terminations, and new plan applications during the fiscal year. This workload is based on the estimated number of plans that will be amended because of recent legislation, the number of plans that will otherwise be amended, a projection of those plans that will be terminated, and a presumption that new plans will continue to be submitted at a growing rate.

In the examination area, it is planned that over 13,000 employee plan returns will be examined to ensure operational compliance with the participation, vesting, and funding standards and other statutory requirements. This will provide an examination coverage rate of 0.80%. Returns will be selected for examination based upon the use of computer selection criteria which score the noncompliance potential of the returns filed. Examinations will also be initiated

based upon referrals received from the Examination activity and the Department of Labor. The examination program of the Employee Plans function serves to protect the rights and benefits of all plan participants.

FY 1987 resources will also allow for the processing of almost 19,000 technical work units in the Employee Plans Technical and Actuarial Division. These technical work units include revenue rulings, revenue procedures, requests for technical advice, taxpayer rulings, opinion letters on the qualification of master and prototype plans and IRA plans, and waivers of minimum funding standards. Workload receipts are expected to increase as a result of the passage of the Retirement Equity and Deficit Reduction Acts of 1984. In addition, resources are provided for the automation of employee plan determinations and an integrated communications network.

b. Exempt Organizations

The Service monitors organizations that are exempt from federal income tax to ensure their compliance with statutory requirements for exemption and provides recognition of exemption and other rulings to those organizations either desiring such determinations or required by statute to obtain them. This is accomplished by providing prompt responses to organizations seeking tax exempt status, by examining exempt organization returns to ensure that various reporting and tax liabilities are satisfied, and by providing the public with guidelines and interpretations of the Exempt Organizations tax laws. Enforcement activities are coordinated with state and various federal agencies as allowed by law. Because of the size, complexity, amount of assets controlled by exempt organizations, and potential for abuse, a visible Service oversight presence is necessary.

FY 1987 Program

The requested resources provide staff to issue prompt responses to approximately 76,000 requests from organizations seeking tax-exempt status and appropriate advance assurance of the deductibility of contributions. The determination program assures that organizations, before being recognized as exempt, are in compliance with the tax laws; strengthens and protects the public confidence in exempt organizations; and generally encourages and enhances future compliance with exemption requirements. Approximately 30% of the applications for exemption are not approved.

Additionally, the examination of 14,800 exempt organization returns will provide an audit coverage of 1.40%. This enforcement activity is needed to ensure that exempt organizations continue to meet the statutory exemption requirements, reporting requirements, and various tax liabilities such as the private foundation excise tax and unrelated business income tax. The examination program involves organizations selected for examination by a computerized system which scores the noncompliance potential of the returns filed. Also examined are specific types of organizations involved in apparent areas of abuse and tax avoidance schemes, such as sham churches, mail order ministries, voluntary employees' beneficiary associations, etc. The presence of the Service's enforcement arm deters and curbs misuse of exempt organization assets or funds intended for charitable or other public purposes.

During FY 1985 these efforts produced positive enforcement actions which resulted in compliance action against 84% of the exempt organizations examined and resulted in the recommendation of $72 million in additional tax and penalties.

FY 1987 resources will also allow for the processing of over 7,000 technical work units in the Exempt Organizations Technical Division. These activities include: the issuance of rulings on applications for exemption and proposed transactions; technical advice and technical assistance to field offices and other National Office components; preparation of Revenue Rulings and Revenue Procedures; responses to Congressional and general technical inquiries; and review of proposed regulations.

	1985 Actual	1986 Estimate	1987 Estimate
Average Positions			
Technical	1,304	1,337	1,345
Other	1,114	1,064	1,048
Total	2,418	2,401	2,393

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	1985 Actual	1986 Estimate	1987 Estimate
Selected Workload Data (in thousands)			
Employee Plans			
Determination Letters	149.5	192.6	266.6
Examinations (Returns)	24.5	11.0	13.4
Technical Activities	24.5	18.7	18.7
Total	198.5	222.3	298.7
Examination Coverage Rate	1.60%	0.69%	0.80%
Exempt Organizations			
Determination Letters	60.6	67.7	75.8
Examinations (Returns)	19.6	16.0	14.8
Technical Activities	9.0	7.6	7.3
Total	89.2	91.3	97.9
Examination Coverage Rate	1.95%	1.55%	1.40%

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SELECTED WORKLOAD DATA
(in thousands)

Item	1985 Actual	1986 Program		1987 Estimate	Percentage Change Over 1986
		In 1986 Budget	In 1987 Budget		
1. Examination					
a. Tax Returns Corrected (all types)					
1) Examinations	1,459	1,373	1,324	1,666	25.83%
2) Contacts	804	1,322	1,093	1,063	-2.74%
Total	2,263	2,695	2,417	2,729	12.91%
b. Income, Estate, Gift Tax and Partnership Returns Corrected					
1) Examinations	1,380	1,313	1,271	1,596	25.57%
2) Contacts	804	1,322	1,093	1,063	-2.74%
Total	2,184	2,635	2,364	2,659	12.48%
2. Appeals and Tax Litigation					
a. Appeals					
1) Work Unit Disposals	63.9	57.7	63.6	74.1	16.51%
2) Penalty Appeals and EP/EO Determination Disposals	4.0	6.1	4.0	4.0	0.00%
b. Tax Litigation					
1) Tax Court and Refund Case Closures	36.1	38.2	43.5	50.1	15.17%

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SELECTED WORKLOAD DATA
(Continued)
(in thousands)

Item	1985 Actual	1986 Program		1987 Estimate	Percentage Change Over 1986
		In 1986 Budget	In 1987 Budget		
3. Employee Plans and Exempt Organizations					
a. Employee Plans					
1) Determinations	149.5	328.4	192.6	266.6	38.42%
2) Examinations	24.5	12.0	11.0	13.4	21.82%
3) Technical Activities	24.5	16.9	18.7	18.7	0.00%
Total	198.5	357.3	222.3	298.7	34.37%
b. Exempt Organizations					
1) Determinations	60.6	74.3	67.7	75.8	11.96%
2) Examinations	19.6	15.2	16.0	14.8	-7.50%
3) Technical Activities	9.0	8.2	7.6	7.3	-3.95%
Total	89.2	97.7	91.3	97.9	7.23%

SELECTED REVENUE DATA
(in billions of dollars)

Item	1985 Actual	1986 Program		1987 Estimate	Percentage Change Over 1986
		In 1986 Budget	In 1987 Budget		
1. Additional Tax Recommended by Examination Program					
a. Examinations	$17.1	$14.2	$14.2	$15.7	10.56%
b. Contacts	0.6	0.5	0.5	0.5	0.00%
Total	$17.7	$14.7	$14.7	$16.2	10.20%
2. Additional Tax Assessments from Examination Program					
a. Tax and Penalties	$12.9	$10.6	$10.8	$11.7	8.33%
b. Interest	4.8	3.8	3.6	4.0	11.11%
Total	$17.7	$14.4	$14.4	$15.7	9.03%

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

FEDERAL FUNDS

General and special funds:

EXAMINATION AND APPEALS

For necessary expenses of the Internal Revenue Service for determining and establishing tax liabilities; employee plans and exempt organizations; tax litigation; hire of passenger motor vehicles (31 U.S.C. 1343(b)); and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, $1,603,162,000 (Title 26, United States Code.)

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SUMMARY OF EMPLOYMENT (NUMBER OF AVERAGE POSITIONS)

Principal Categories	Actual 1985	Estimated 1986	Estimated 1987	Increases or Decreases for 1987: Total	Program Changes	Other
1. Examination						
Revenue Agents	13,554	14,671	15,866	1,195	1,618	-423
Tax Auditors	3,513	3,761	3,796	35	175	-140
Other full-time permanent	9,836	10,140	10,957	817	901	-84
Total full-time permanent	26,903	28,572	30,619	2,047	2,694	-647
All others	2,106	1,350	1,865	515	0	515
Total	29,009	29,922	32,484	2,562	2,694	-132
2. Appeals and Tax Litigation						
Appeals Officers	1,050	1,101	1,240	139	139	0
Auditors	177	180	205	25	25	0
Attorneys	572	603	670	67	62	5
Other full-time permanent	1,755	1,591	1,846	255	229	26
Total full-time permanent	3,554	3,475	3,961	486	455	31
All others	108	125	136	11	11	0
Total	3,662	3,600	4,097	497	466	31
3. Employee Plans and Exempt Organizations						
Technical	1,304	1,337	1,345	8	8	0
Other full-time permanent	1,013	983	967	-16	0	-16
Total full-time permanent	2,317	2,320	2,312	-8	8	-16
All others	101	81	81	0	0	0
Total	2,418	2,401	2,393	-8	8	-16
Appropriation Total						
Full-time permanent	32,774	34,367	36,892	2,525	3,157	-632
All other	2,315	1,556	2,082	526	11	515
Total	35,089	35,923	38,974	3,051	3,168	-117

EXPLANATION OF FISCAL YEAR 1987 BUDGET INCREASES AND DECREASES

PROGRAM CHANGES ..... 3,168 average positions and $130,302,000

1. ADP program increases ..... 68 average positions and $ 11,385,000

a. Staffing increases ..... 68 average positions and $ 2,816,000

Staffing is for the Automated Examination System. Computations for position increases are made at the base of grade. Personnel are costed at current rates for life insurance, health insurance, retirement, and FICA where applicable. Travel and support costs related to staffing increases are computed using rates based on past experience.

b. Non-staffing increases ..... $ 8,569,000

Provide resources for rent and installation of ADP equipment, maintenance of computer equipment, data processing services, magnetic media, ADP computer and peripheral equipment, and other ADP supplies. Included is funding for the Automated Examination System, the W-4 Updatable Data Base and the Integrated Telecommunications Network.

2. Revenue initiative ..... 2,500 average positions and $ 94,803,000

Provides funding for the first increment of the Revenue Initiative. It will increase staffing over the three year period by adding 2,500 average positions each year to the examination of tax returns.

Computations for position increases are made at the base of grade. Personnel benefits are costed at current rates for life insurance, health insurance, retirement, and FICA where applicable. Travel and support costs related to staffing increases are computed using rates based on past experience.

3. Tax shelter initiative ..... 465 average positions and $ 20,650,000

Funds are provided for additional staffing to reduce tax shelter case inventories within the Appeals and Tax Litigation functions.

Computations for position increases are made at the base of grade. Personnel benefits are costed at current rates for life insurance, health insurance, retirement, and FICA where applicable. Travel and support costs related to staffing increases are computed using rates based on past experience.

4. Document matching initiative ..... 135 average positions and $ 3,864,000

Provides funds to conduct follow-up examinations of returns selected by the document matching program that have potentially significant income underreporting.

Computations for position increases are made at the base of grade. Personnel benefits are costed at current rates for life insurance, health insurance, retirement, and FICA where applicable. Travel and support costs related to staffing increases are computed using rates based on past experience.

TOTAL OTHER CHANGES ..... -117 average positions and $ 45,739,000

Increases ..... 215 average positions and $ 96,689,000

1. Net Cost of within-grade salary increase ..... $ 5,851,000

The cost of within-grade salary advances, as determined from IRS payroll accounts total $27.3 million. After deducting for anticipated employee promotions, retirements and separations, the Service will need an additional $12.1 million, an increase of 0.73% in personnel compensation, of which $5.9 million will be needed in this Appropriation.

2. Advancement of trainees ..... $ 2,577,000

Pursuant to formal Office of Personnel Management training agreements, the Service hires revenue agents, tax auditors, and attorneys at grades below the full working level for these occupations. Those employees who make satisfactory progress are advanced in grade until they reach the first full working level. Funds are requested to pay for these mandatory promotions.

3. Full-year cost of FICA and medicare ..... $ 143,000

Recent changes in salary, subject to FICA, increase the base from $41,400 to $43,200 requiring an additional $143,000 for FY 1987 in this Appropriation .

4. Health benefits ..... $ 2,178,000

Indications from the Office of Personnel Management suggest that agencies' share of employee health benefits will increase on the average by ten percent, effective January, 1987. Accordingly, this percentage was applied to our FY 1986 base of $70.3 million resulting in an increase of $7.1 million annually ($5.3 million for nine months), $2.2 million of which will be incurred in this Appropriation .

5. Federal Buildings Fund ..... $ 9,464,000

In accordance with Public Law 92-313, GSA is required to approximate commercial charges for comparable space and services. This request represents the increased cost necessary to maintain the same levels of space and services provided in FY 1986. Inflation increase is $6.7 million and overtime utilities require $218,000 in this Appropriation.

6. FTS and other communications ..... $ 4,782,000

These additional funds are requested to support current service operations and do not include enhancements. Contributing to increased communication costs is taxpayer growth (2.3%).

7. Printing and postage ..... $ 1,518,000

Additional funds are needed to cover printing contract price escalations. The GPO inflation projection is 7 percent. Postage funds are required to cover costs resulting from compulsory mailouts such as the following: INC 6020, Electronic fund, Employee Plan Mailout and IRP Examination postage.

8. Support services and facilities ..... $ 2,986,000

These funds are to cover inflationary cost increases in services and and supplies ($1.8 million). Also included are funds to cover payroll/personnel system costs in FY 1987. The payroll/personnel costs ($1.2 million in this Appropriation) reflect $2.42 per account for operation and development of personnel system and $30 per account for development and implementation of the enhanced payroll system.

9. Change in employment structure ..... 132 average positions

This results from a change in the mix of employment categories, with no additional cost to the Service.

10. Annualization of ADP equipment and contract increases ..... $ 2,786,000

Provides full year funding for ADP Projects, which were initiated in FY 1986. Also provides funding necessary to continue ADP projects at FY 1986 levels.

11. Annualization of unitary tax ..... 23 average positions and $ 1,000,000

Provides full year funding for staffing authorized in FY 1986 as a result of recommendations of the President's Worldwide Unitary Taxation Working Group. The Service will expand its audit activities with respect to international tax issues.

12. Enforcement expenses ..... $ 2,000,000

Due to the growth in tax shelter case workloads, an additional $2.0 million is required to cover the additional costs of funding outside fee appraisals.

13. Maintain FY 1986 program levels reduced by P.L. 99-177.....$ 61,036,000

Restores the FY 1986 impact of the Budget and Emergency Deficit Control Act of 1985 which by law has only a one year effect.

14. ADP reapplication ..... -$ 60,000

Redirection of resources for ADP projects.

15. Inter-appropriation transfer ..... 60 average positions and $ 432,000

The following inter-appropriation transfers will be made in FY 1987:

	Average Positions	Amount ($000's)
To realign Internal Audit based on revised internal audit plan		
To Examination	41	$1,771
From Appeals and Tax Litigation	-1	-$ 44
To Employee Plans and Exempt Org.	2	$ 88
To realign research initiative		
From Examination	-16	-$ 968
FY 1986 Administrative services realignment		
To Examination	20	$1,127
To Appeals and Tax Litigation	8	$ 263
From Employee Plans and Exempt Org.	-18	-$ 562
To realign ADP		
From Examination	-	-$2,292
Reorganization of Rulings Division		
To Appeals and Tax Litigation	24	$1,049

Reduction, nonrecurring costs and savings ..... -332 average positions and -$ 50,950,000

1. Non-recurring ..... -332 average positions and -$ 50,950,000

a. Staff expansion .....-332 average positions and -$14,450,000

Eliminates costs incurred in FY 1986 for advance hiring of new personnel for the Revenue Initiative.

b. ADP ..... -$ 2,458,000

Eliminates funding for ADP projects which were completed in FY 1986.

e. Other nonrecurring.....-$ 34,042,000

Eliminates one time staffing, training, printing, equipment and space alteration costs incurred in FY 1986.

THE DEPARTMENT OF THE TREASURY
Examination and Appeals, Internal Revenue Service
Standard Classification Schedule
(Direct Obligations Only)

(Dollars in Thousands Except Actual Column Which Is In Whole Dollars)

	Appropriation 1985	Authorized Level 1986	Appropriation 1987	1987 Increases Over 1986
Total number of permanent positions	34,332	37,698	40,850	3,152
Average paid employment	35,089	35,923	38,974	3,051
Object Classification				
Personnel Compensation:				
Permanent positions	946,062,504	1,007,634	1,001,257	(6,377)
Positions other than permanent	35,464,320	30,491	30,632	141
Other personnel compensation	10,697,928	9,519	9,543	24
Special personal service payments	3,536,128	7,457	7,457	0
				0
Total personnel compensation	995,760,880	1,055,101	1,048,889	(6,212)
				0
Personnel benefits	137,351,985	160,979	163,106	2,127
Benefits for former personnel	23,700	0	0	0
Travel and transportation of persons	47,024,491	61,403	70,124	8,721
Transportation of things	3,498,001	3,690	3,755	65
Standard level user charges	94,394,738	86,049	101,188	15,139
Rental payments to others	185,385	185	217	32
Other rent, communications and utilities	34,375,101	59,523	68,724	9,201
Printing and reproduction	10,609,981	10,333	12,177	1,844
Other services	27,748,618	26,267	37,147	10,880
Supplies and materials	9,066,594	11,370	12,790	1,420
Equipment	16,319,545	13,107	23,834	10,727
Grants, subsidies and contributions	0	0	0	0
Insurance claims and indemnities	147,406	150	175	25
Undistributed	0	(61,036)	61,036	122,072
Total obligations	1,376,506,425	1,427,121	1,603,162	176,041
Unobligated balance	616,000			
Unobligated balance available start of year				
Unobligated balance available end of year				
Total Appropriation, Authorized Level and Budget Estimates	1,377,122,425	1,427,121	1,603,162	176,041

AVERAGE GRADE AND SALARIES

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Average ES Salary	$67,147	$58,398	$58,398
Average GS Salary	$28,250	$26,986	$27,092
Average GS Grade	9.02	9.09	8.91

CONSULTING AND RELATED SERVICES
(Amounts in thousands)

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Consulting Services	14	24	24
Management and professional Services	24	42	41
Special Studies and Analyses	12	21	21
Management and Support Services for Research and Development	446	602	620
TOTAL	496	689	706

CONSULTING AND RELATED SERVICES

Consulting and related services are generally used on projects when sophisticated specialized knowledge or when additional related support services are not readily available within our existing expertise or personnel resources. Some of these projects include improving resource allocation and operational program procedures through mathematical models; establishing trends in the nature of international transactions, particularly regarding tax havens; continuing efforts to simplify tax returns; more accurately measuring and analyzing taxpayer reporting burdens; and assessing alternative technologies for the delivery of taxpayer service.

THE DEPARTMENT OF THE TREASURY
ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1986
(Dollars in thousands)

	Perm. Pos.	Ave. Pos.	Amount
1986 Appropriation (Continuing Resolution P.L. 99-190) Enacted by the Congress	25,322	26,116	1,064,525
Adjustments:			
Proposed program supplemental	710	670	76,730
Reductions under P.L. 99-177			(45,766)
Authorized Level for FY 1986	26,032	26,786	1,095,289
Estimate, FY 1987	25,998	26,739	1,136,301

DIGEST OF BUDGET ESTIMATES BY APPROPRIATION FISCAL YEAR 1987

	Appropriation FY 1985		Authorized Level FY 1986		Budget Estimate FY 1987		Increase or Decrease (-) for 1987					
							Total Changes		Program Changes		Other Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
1. Tax fraud investigations	4,888	219,931	4,413	210,794	4,988	223,794	(5)	13,010	1,668		(5)	11,342
2. Collection	10,132	613,327	10,036	607,240	10,068	635,541	12	28,301			12	28,301
3. Taxpayer service	4,304	169,874	4,884	231,252	4,860	210,093	(24)	(1,159)			(24)	(1,159)
4. Enforcement litigation and rulings	1,422	67,670	1,433	66,013	1,403	67,153	(30)	1,140			(30)	1,140
Unobligated balance		741										
Total appropriation, authorized level and budget estimate	29,834	1,071,763	26,786	1,095,289	26,739	1,136,301	(47)	41,292	0	1,668	(47)	39,624
Permanent positions established	26,264		26,032		25,988		(66)		0		(66)	

February 5,1986

Investigation, Collection and Taxpayer Service, Internal Revenue Service

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987
(Dollars in Thousands)

	Activity 1			Activity 2			Activity 3			Activity 4			Total		
	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount
PROGRAM CHANGES:															
1 ADP program increases			1,688												1,688
Total Program Changes	0	0	1,688	0	0	0	0	0	0	0	0	0	0	0	1,688
OTHER CHANGES:															
Increases necessary to maintain current levels:															
1 Net cost of within-grade salary increase			847			3,330			481			382			5,070
2 Advancement of trainees			593									139			732
3 Full-year cost of FICA and medicare			19			36			8			9			90
4 Health benefits			331			996			183			93			1,393
5 Federal buildings fund			1,314			5,877			1,300			379			7,870
6 FTS and other communications			880			3,879			4,192			99			10,170
7 Printing and postage			197			879			400			22			1,497
8 Support services and facilities			598			1,911			683			191			2,583
9 Annualization of ADP equipment and contract increases			1,831						6,259			37			6,096
10 Enforcement expenses			213												213
11 Maintain FY 1986 program levels reduced by P.L. 99-177			9,389			26,239			7,118			3,959			46,706
12 ADP reapplication				(19)	(19)	360							(19)	(19)	360
13 Inter-appropriation transfer	(3)	(3)	(99)	36	22	2,391	(37)	(37)	(1,613)	(33)	(27)	(1,998)	(34)	(37)	(3,359)
14 Inter-activity transfer							13	13	434	(13)	(13)	(434)	0	0	0
Subtotal, Other increases	(3)	(3)	13,994	34	17	42,669	(24)	(24)	19,043	(31)	(39)	2,846	(44)	(47)	80,202
Reductions, nonrecurring costs and savings:															
1 Nonrecurring			(4,643)			(19,369)			(39,202)			(1,466)			(60,680)
Subtotal, Reductions etc	0	0	(4,643)	0	0	(19,369)	0	0	(39,202)	0	0	(1,466)	0	0	(60,680)
Total Other Changes	(3)	(3)	11,343	34	17	28,304	(24)	(24)	(1,159)	(31)	(39)	1,140	(44)	(47)	29,624
Total Increases or Decreases in FY 1987 Compared with Proposed FY 1986 Authorized Level	(3)	(3)	13,010	34	17	29,304	(24)	(24)	(1,159)	(31)	(39)	1,140	(44)	(47)	31,312

February 5, 1986

SUMMARY JUSTIFICATION OF FY 1987 BUDGET ESTIMATES

The Investigation, Collection, and Taxpayer Service Appropriation provides funding for four activities: Tax Fraud Investigations, Collection, Taxpayer Service, and Enforcement Litigation and Rulings.

The Tax Fraud Investigations activity is responsible for investigating criminal violations of the Internal Revenue laws. This activity includes: the Office of the Assistant Commissioner (Criminal Investigation) at the National Office, the offices of the Assistant Regional Commissioners (Criminal Investigation), and enforcement personnel in district offices and service centers.

The Collection activity provides for collecting unpaid accounts, as well as securing unfiled tax returns and payments. Collection personnel in district offices and service centers are funded under this activity, as are managerial and program formulation personnel in the National Office and in regional offices.

The Taxpayer Service activity provides information and assistance to taxpayers to help them comply with the tax laws. Funded are personnel in the district offices who have direct contact with taxpayers, along with managerial and program development staff in the National Office and in regional offices.

The Enforcement Litigation and Rulings activity provides legal support for the Tax Fraud and Collection functions, prepares and reviews proposed legislation and regulations, interprets tax statutes, and provides general legal advice within the Service. Legal and support staff in this activity are in district and regional offices and in the National Office.

The budget proposed for the four activities financed in the Investigation, Collection, and Taxpayer Service Appropriation totals 26,739 average positions and $1,136.6 million, a decrease of 47 average positions and an increase of $41.3 million over the FY 1986 level.

1. Tax Fraud Investigations

Tax fraud investigations are the responsibility of the Criminal Investigation Division in Internal Revenue Service district offices under the functional direction of the Assistant Regional Commissioners (Criminal Investigation) and the National Office Assistant Commissioner (Criminal Investigation).

The overall objective of this activity is to encourage the highest degree of voluntary compliance with the Internal Revenue laws pertaining to income, estate, gift, employment and certain excise taxes. This objective is accomplished by enforcing the criminal provisions of such laws which, when warranted, includes recommending prosecution. There are two main criminal investigation programs, the General Enforcement Program and the Special Enforcement Program.

FY 1987 Program

The resources for this activity in FY 1987 total 4,408 average positions and $223.8 million, a decrease of 5 average positions reflecting realignment of administrative services and an increase of $13 million over the FY 1986 level. A greater emphasis is being placed on the General Enforcement Program (GEP) due to the growing amount of activity involving fraudulent tax shelters, questionable refund schemes, offshore banking, tax havens and the need to maintain a strong presence in the illegal tax protester area. The Service will continue to commit a substantial level of resources to the Special Enforcement emphasis areas of organized crime and narcotics trafficking. In addition, the Service will maintain its commitment of resources to the President's task forces on organized crime and drug enforcement. In FY 1987, 262 average positions and $13.6 million are budgeted for this effort.

Resources of $1.7 million are also included to fund the Integrated Telecommunications Network. These resources represent the prorated share for the Investigation, Collection and Taxpayer Service Appropriation which will provide for state-of-the-art communications equipment and circuitry as well as the integration of voice, data, office automation and video communications into one system. These resources will also be used to acquire digitized Automatic Call Distributor/Private Branch Exchange (ACD/PBX) equipment to replace older and less efficient equipment.

	1985 Actual	1986 Estimate	1987 Estimate
Average Positions			
Special Agents	2,821	2,791	2,791
(Special Enforcement Program)	(1,344)	(1,359)	(1,252)
(General Enforcement Program)	(1,477)	(1,432)	(1,539)
Other (managerial, paraprofessional, administrative, and clerical support)	1,865	1,622	1,617
Total	4,686	4,413	4,408
Selected Workload Data			
Tax Fraud Investigations Initiated			
General Enforcement Program	3,607	3,475	3,736
Special Enforcement Program	2,458	2,487	2,291

2. Collection

The Collection activity has the responsibility to collect unpaid accounts; secure delinquent returns; determine and analyze why accounts become delinquent; develop and implement programs to prevent accounts from becoming delinquent and prevent nonfiling; determine and analyze the reasons for nonfiling; and measure the types and degrees of nonfiling.

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FY 1987 Program

The proposed budget for Collection totals 16,068 average positions $635.5 million in FY 1987, an increase of 12 average positions and $28.3 million above the FY 1986 level.

In the Accounts Receivable Program, the Service will complete action on some 2.6 million unpaid accounts and collect $8.9 billion in delinquent tax revenues, an increase of $205 million over FY 1986. In addition, the Service will collect revenues of $8.6 billion from initial billings on unpaid accounts, an increase of $233 million over FY 1986.

The Delinquent Returns Investigations Program identifies taxpayers who have not complied with their filing requirements. In FY 1987, the requested resources will enable the Service to secure 3.4 million delinquent returns and assess $5.3 billion in unreported taxes, an increase of $123 million over FY 1986.

The Returns Compliance Program (RCP) identifies taxpayers who have never filed tax returns. Plans call for continued efforts to identify nonfilers in FY 1987 with assessments from the program estimated at $15 million, based on securing 9,900 returns.

In addition to assessments relating to the Delinquent Returns Investigations and Returns Compliance programs, some $822 million will be assessed as a result of delinquent returns secured from delinquent accounts and such miscellaneous sources as notice and walk-in contacts.

FY 1985 was the first full year of operation for the Automated Collection System (ACS) which utilizes modern computer and telephone technology to improve office operations and to accelerate the collection of unpaid taxes. The ACS has produced staff savings of over 1,700 average positions during Fiscal Years 1984 and 1985. It is the initial step in a series of efforts to control increasing workload through improved productivity. During FY 1985, the Service began development of an integrated system that will automate the remaining collection activities -- the Collection field and special procedures functions and Collection service center operations. This integrated system will provide Collection employees with direct access to a taxpayer's account and will result in improved case processing and taxpayer relations. Development of this system will continue throughout FY 1986 with nationwide implementation scheduled during FY 1987 and 1988.

Investigation, Collection and Taxpayer Service, Internal Revenue Service

We have expanded our efforts to deal with taxpayers that do not voluntarily file their tax returns by using automated programs that allow us to complete returns for nonresponsive taxpayers based on available information documents. Collection is also testing the use of revenue officers to investigate possible underreporting of employment tax liabilities by businesses.

These improvements, along with the revenue initiative that was authorized by Congress in FY 1983, have helped the Collection activity to increase revenue collections by 11% to $18.2 billion in FY 1985 and to make the first significant reductions in delinquent account inventories, 13%, since the mid-seventies.

	1985 Actual	1986 Estimate	1987 Estimate
Average Positions			
Accounts Receivable	14,042	12,452	12,464
Delinquent Returns Investigations	3,898	3,499	3,499
Returns Compliance Program	192	105	105
Total	18,132	16,056	16,068

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Selected Workload Data
(dollars in millions)
(numbers in thousands)

Accounts Receivable			
Dollars Collected			
From First Notices	$ 9,190	$ 8,370	$ 8,603
From Second-Fifth Notices	4,390	4,050	4,162
From Taxpayer Delinquent Accounts (TDA's)	4,672	4,634	4,727
Total	$ 18,252	$ 17,054	$ 17,492
Account Dispositions (TDA's)	2,713	2,575	2,626
Closing Active Inventory (TDA's)	1,692	1,217	891
Revenue in Active Inventory (TDA's)	$ 9,143	$ 6,579	$ 4,817
Delinquent Returns Investigations			
Additional Dollars Assessed	$ 5,726	$ 5,203	$ 5,326
Delinquent Returns Secured	3,423	3,406	3,446
Taxpayer Delinquent Investigations Disposed (TDI's)	1,486	1,550	1,579
Closing Active Inventory (TDI's)	1,040	1,101	1,065
Returns Compliance Program			
Additional Dollars Assessed	$ 10	$ 12	$ 15
Delinquent Returns Secured	7	8	10
Leads Disposed	51	28	28
Other Delinquent Returns Yield			
Additional Dollars Assessed	$ 637	$ 800	$ 822
Delinquent Returns Secured	341	372	372

3. Taxpayer Service

The overall objective of Taxpayer Service is to encourage voluntary compliance with Federal tax laws on the part of all taxpayers by informing them of their responsibilities and by providing service which will assist them in meeting their obligations. This activity also provides assistance in resolving taxpayer inquiries concerning their accounts and information about Internal Revenue Service notices and procedures.

FY 1987 Program

Resources requested for FY 1987 total 4,860 average positions and $210.1 million -- the same basic level budgeted in FY 1986 after adjusting for realignment of administrative services. The FY 1987 program provides a balanced and cost effective system for providing essential tax information and account assistance to the public. Over 45 million taxpayers will be served through direct assistance. Taxpayer education programs and automated responses will provide information to another 19 million taxpayers.

Timely tax law and account assistance through the toll-free telephone, walk-in and correspondence programs will continue to be provided in FY 1987. Additionally, the Outreach program will provide tax law information and group tax return preparation assistance at community and business locations. The use of computer controlled multifunctional equipment providing both tax law information and refund information will also be continued and will be accessible to taxpayers nationwide.

Quality assistance will be assured with new emphasis on training and managerial review of employee performance. Increased emphasis will also be placed on assisting taxpayers in the post-filing period (May through September) to provide better assistance to taxpayers who receive notices from the Internal Revenue Service or who have account related problems.

The Tax Counseling for the Elderly program is funded at the FY 1986 level of $2.2 million for grants to participating organizations. Printing, travel, training and other admimistrative expenses to maintain this particular program are financed separately.

	1985 Actual	1986 Estimate	1987 Estimate
Average Positions			
Full-Time Permanent			
Taxpayer Service Specialists	557	733	683
Taxpayer Service Representatives	1,121	1,665	1,715
Other Permanent	1,189	1,200	1,182
All Other			
WAE/Part-time/ Temporary	1,640	1,190	1,184
Details			
Revenue Officers	10	14	14
Tax Auditors	23	30	30
Revenue Agents	44	52	52
Total	4,584	4,884	4,860

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	1985 Actual	1986 Estimate	1987 Estimate
Selected Workload Data (units in thousands)			
Taxpayers Assisted	50,208	45,657	45,657
Tele-Tax Contacts	8,307	10,000	12,000
Total Contacts	58,515	55,657	57,657
Taxpayer Education Programs			
Outreach Participants	400	400	400
VITA/TCE Participants	1,470	1,500	1,500
Participants in other individual and business programs	88	88	88
Publications ordered for "Understanding Taxes" program	4,059	4,500	5,000
Total Taxpayer Education	6,017	6,488	6,988

4. Enforcement Litigation and Rulings

The seven Regional Counsel offices and the fifty-three District Counsel offices provide legal advice and assistance to field Collection and Tax Fraud Investigations. These offices also support Service field offices with legal services in the administrative areas of labor relations, contracting, tort claims, equal employment opportunity, disciplinary matters, disclosure matters under the Freedom of Information Act and the Privacy Act, and tax practitioner discipline.

The Chief Counsel's National Office components accomplish a variety of legal and technical functions which facilitate taxpayer compliance by promoting the uniform interpretation and application of the Federal tax laws. Effective administration of the highly complex tax statutes and collection of tax revenues require that Service personnel and taxpayers alike understand the application of the Internal Revenue Code to each case.

In accomplishing its mission, this activity:

-- provides legal advice and assistance to field enforcement activities;

-- furnishes non-tax legal services in various administrative areas;

-- provides legal services in drafting, reviewing and interpreting statutes, regulations and rulings;

-- issues technical advice to Service field offices and rulings to taxpayers, applying tax laws and regulations to specific issues and cases;

-- publishes precedent rulings and procedures that explain the Service's position on substantive issues affecting the rights and duties of taxpayers;

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-- coordinates tax law interpretations, applications and developments among all affected offices; and

-- identifies and recommends remedial action to correct inconsistencies, abuses and inequities in the application of the tax laws.

FY 1987 Program

The requested resources of 1,403 average positions and $67.2 million in FY 1987 represent a decrease of 30 average positions due to reorganization and an increase of $1.1 million over the FY 1986 level. The net decrease of 30 average positions for this program represents an increase of 7 average positions for the Enforcement Litigation activity, and a decrease of 37 average positions for the Rulings activity.

In the Enforcement Litigation area, the FY 1987 program levels will allow for 38,774 case closings.

	1985 Actual	1986 Estimate	1987 Estimate
Average Positions			
Attorneys	454	476	480
Other	968	957	923
Total	1,422	1,433	1,403
Selected Workload Data (in thousands)			
Enforcement Litigation Case Receipts	42.8	45.5	48.5
Enforcement Litigation Case Closings	40.0	38.5	38.8
Enforcement Litigation Ending Inventory	32.1	39.1	48.9
Rulings Issued and Other Technical Projects Completed	40.5	39.7	36.0

SELECTED WORKLOAD DATA
(in thousands)

Item	1985 Actual	1986 Program: In 1986 Budget	1986 Program: In 1987 Budget	1987 Estimate	Percentage Change Over 1986
1. Tax Fraud Investigations					
a. Investigations					
1) Taxpayers in General	3.607	4.030	3.475	3.736	7.51%
2) Special Enforcement Programs	2.458	2.118	2.487	2.291	-7.88%
Total	6.065	6.148	5.962	6.027	1.09%
2. Collection					
a. Accounts Receivable					
1) Closed	2,713	3,299	2,575	2,626	1.98%
2) Outstanding	1,692	1,738	1,217	891	-26.79%
b. Taxpayer Delinquent Returns Investigations					
1) Returns Secured on Delinquent Returns Investigations	3,423	3,148	3,406	3,446	1.17%
2) Investigations Outstanding (Close of Year)	1,040	564	1,101	1,065	-3.27%
c. Returns Compliance Program					
1) Returns Secured from Returns Compliance Projects	7	10	8	10	25.00%
d. Other Delinquent Returns Yield					
1) Returns Secured from Other Sources	341	371	372	372	0.00%

SELECTED WORKLOAD DATA
(Continued)
(in thousands)

Item	1985 Actual	1986 Program		1987 Estimate	Percentage Change Over 1986
		In 1986 Budget	In 1987 Budget		
3. Taxpayer Service					
a. Taxpayers Assisted (Contacts).....	58,515	48,767	55,657	57,657	3.59%
4. Enforcement Litigation and Rulings					
a. Enforcement Litigation Case Closures	40.0	41.2	38.5	38.8	0.78%
b. Rulings Issued and Other Technical Projects Completed.....	40.5	51.9	39.7	36.0	-9.32%

SELECTED REVENUE DATA
(in millions of dollars)

Item	1985 Actual	1986 Program: In 1986 Budget	1986 Program: In 1987 Budget	1987 Estimate	Percentage Change Over 1986
1. Accounts Receivable Collected					
From First Notices	$9,190	$7,789	$8,370	$8,603	2.78%
From Second - Fifth Notices	4,390	3,903	4,050	4,162	2.77%
From Taxpayer Delinquent Accounts	4,672	5,609	4,634	4,727	2.01%
Total Accounts Receivable Collected	$18,252	$17,301	$17,054	$17,492	2.57%
2. Delinquent Returns Assessments	$5,726	$4,466	$5,203	$5,326	2.36%
3. Returns Compliance Assessments	$10	$17	$12	$15	25.00%
4. Other Delinquent Return Yield	$637	$931	$800	$822	2.75%

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DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

FEDERAL FUNDS

General and special funds:

INVESTIGATION, COLLECTION, AND TAXPAYER SERVICE

For necessary expenses of the Internal Revenue Service for investigation and enforcement activities; including purchase (not to exceed four hundred and fifty-one replacement only, for police-type use) and hire of passenger motor vehicles (31 U.S.C. 1343); securing unfiled tax returns; collecting unpaid accounts; examining selected employment and excise tax returns; technical rulings; enforcement litigation; providing assistance to taxpayers; and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner $1,136,581,000.

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Explanation of Appropriation Language Change for FY 1987

The Internal Revenue Service conducts examinations of employment tax returns particularly in cases where the question of employer/employee relationship is at issue. Traditionally, this activity has been the responsibility of the Examination function. Through their normal contacts with delinquent business taxpayers, field collection employees are in the position to recognize potential deficiencies in employment tax returns. Examination and Collection have agreed to a procedure whereby Collection personnel will conduct examinations of selected employment tax returns. No staffing increase is requested for this project.

Investigation, Collection and Taxpayer Service, Internal Revenue Service

SUMMARY OF EMPLOYMENT (NUMBER OF AVERAGE POSITIONS)

Principal Categories	Actual 1985	Estimated 1986	Estimated 1987	Increases or Decreases for 1987 Total	Program Changes	Other
1. Tax Fraud Investigations						
Special Agents	2,821	2,791	2,791	0	0	0
Other full-time permanent	1,603	1,566	1,504	-62	0	-62
Total full-time permanent	4,424	4,357	4,295	-62	0	-62
All others	262	56	113	57	0	57
Total	4,686	4,413	4,408	-5	0	-5
2. Collection						
Revenue Officers	7,387	7,389	7,393	4	0	4
Other full-time permanent	8,692	7,684	7,696	12	0	12
Total full-time permanent	16,079	15,073	15,089	16	0	16
All others	2,053	983	979	-4	0	-4
Total	18,132	16,056	16,068	12	0	12
3. Taxpayer Service						
Revenue Agents	48	52	52	0	0	0
Revenue Officers	10	14	14	0	0	0
Tax Auditors	23	30	30	0	0	0
Taxpayer Service Reps	1,121	1,665	1,715	50	0	50
Taxpayer Service Specialists	557	733	683	-50	0	-50
Other full-time permanent	1,189	1,200	1,182	-18	0	-18
Total full-time permanent	2,948	3,694	3,676	-18	0	-18
All others	1,640	1,190	1,184	-6	0	-6
Total	4,584	4,884	4,860	-24	0	-24
4. Enforcement Litigation & Rulings						
Attorneys	454	475	479	4	0	4
Other full-time permanent	931	918	884	-34	0	-34
Total full-time permanent	1,385	1,393	1,363	-30	0	-30
All others	37	40	40	0	0	0
Total	1,422	1,433	1,403	-30	0	-30
Appropriation Total						
Full-time permanent	24,832	24,517	24,423	-94	0	-94
All other	3,992	2,269	2,316	47	0	47
Total	28,824	26,786	26,739	-47	0	-47

Investigation, Collection and Taxpayer Service, Internal Revenue Service

EXPLANATION OF FISCAL YEAR 1987 BUDGET INCREASES AND DECREASES

PROGRAM CHANGES	$ 1,668,000
1. ADP program increases	$ 1,668,000

Provide resources for rent and installation of ADP equipment, maintenance of computer equipment, data processing services, magnetic media, ADP computer and peripheral equipment, and other ADP supplies.

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TOTAL OTHER CHANGES.....-87 average positions and $ 39,624,000

Increases.....-87 average positions and $ 39,282,000

1. Net cost of within-grade salary increase..... $ 3,870,000

The cost of within-grade salary advances, as determined from IRS payroll accounts total $27.3 million. After deducting for anticipated employee promotions, retirements and separations, the Service will need an additional $12.1 million, an increase of 0.73% in personnel compensation, of which $3.9 million will be needed in this Appropriation.

2. Advancement of trainees..... $ 732,000

Pursuant to formal Office of Personnel Management training agreements, the Service hires revenue agents, tax auditors, and attorneys at grades below the full working level for these occupations. Those employees who make satisfactory progress are advanced in grade until they reach the first full working level. Funds are requested to pay for these mandatory promotions.

3. Full-year cost of FICA and medicare..... $ 90,000

Recent changes in salary, subject to FICA, increase the base from $81,600 to $83,200 requiring an additional $90,000 for FY 1987 in this Appropriation.

4. Health benefits..... $ 1,595,000

Indications from the Office of Personnel Management suggest that agencies' share of employee health benefits will increase on the average by ten percent, effective January, 1987. Accordingly, this percentage was applied to our FY 1986 base of $70.3 million resulting in an increase of $7.1 million annually ($5.3 million for nine months), $1.595 million of which will be incurred in this Appropriation.

5. Federal Buildings Fund..... $ 7,878,000

In accordance with Public Law 92-313, GSA is required to approximate commercial charges for comparable space and services. This request represents the increased cost necessary to maintain the same levels of space and services provided in FY 1986. Inflation increase is $5.5 million and $172,000 is included for overtime utilities.

6. FTS and other communications..... $ 10,170,000

These additional funds are requested to support current service operations and do not include enhancements. Contributing to increased communication costs is taxpayer growth (2.3%).

7. Printing and postage..... $ 1,497,000

Additional funds are needed to cover printing contract price escalations. The GPO inflation projection is 7 percent, of which $1 million is included in this Appropriation. Postage funds ($407,000) are required to cover costs resulting from compulsory mailouts such as the following: IRC 6020, Electronic Fund, Employee Plan Mailout and FMF Delinquent Notice.

8. Support services and facilities..... $ 2,583,000

These funds are to cover inflationary cost increases in services and supplies. Also included are funds to cover payroll/personnel system costs in FY 1987 ($954,000). The payroll/personnel costs reflect $2.42 per account for operation and development of personnel system and $30 per account for development and implementation of the enhanced payroll system.

9. Annualization of ADP equipment and contract increases..... $ 6,086,000

Provides full year funding for ADP Projects, which were initiated in FY 1986. Also provides funding necessary to continue ADP projects at FY 1986 levels.

10. Enforcement expenses..... $ 213,000

Due to the growth in tax shelter case workloads, ($.2 million) and the additional costs of funding outside fee appraisals ($2.0 million).

11. Maintain FY 1986 program levels reduced by P.L. 99-177.....$ 45,766,000

Restores the FY 1986 impact of the Budget and Emergency Deficit Control Act of 1985 which by law has only a one year effect.

12. ADP reapplication.....-10 average positions and $ 360,000

ADP resources realigned for the Automated Collection System (-10 average positions and $569,000) and other ADP projects (-$209,000).

13. Inter-appropriation transfers.....-37 average positions and -$ 0 558,000

The following inter-appropriation transfers will be made in FY 1987:

	Average Positions	Amount ($000's)
To realign Internal Audit based on revised internal audit plan		
From Tax Fraud Investigations	-3	-$ 132
To Collection	7	$ 308
From Taxpayer Service	-42	-$1,815
To Enforcement Litigation and Rulings	1	$ 44
To realign research initiative		
To Collection	4	$ 283
FY 1986 Administrative services realignment		
From Tax Fraud Investigations	- 2	$ 33
To Collection	11	$ 718
To Taxpayer Service	5	$ 203
To Enforcement Litigation and Rulings	6	-$ 43
To realign ADP		
To Collection	-	$ 932
Reorganization of Rulings Division		
From Enforcement Litigation and Rulings	-24	-$1,049

Reduction, nonrecurring costs and savings..... -$40,658,000

Nonrecurring..... -$40,658,000

a. Other..... -$22,806,000

Eliminates one time costs for printing deficit.

b. ADP..... -$17,852,000

Eliminates funding for ADP projects which were completed in FY 1986.

THE DEPARTMENT OF THE TREASURY
Investigation, Collection and Taxpayer Service, Internal Revenue Service
Standard Classification Schedule
(Direct Obligations Only)

(Dollars in Thousands Except Actual Column Which Is In Whole Dollars)

	Appropriation 1985	Authorized Level 1986	Appropriation 1987	1987 Increases Over 1986
Total number of permanent positions	26,264	26,032	25,988	(44)
Average paid employment	28,824	26,786	26,739	(47)
Object Classification				
Personnel Compensation:				
Permanent positions	644,445,860	664,914	616,085	(48,829)
Positions other than permanent	59,201,258	36,828	36,788	(40)
Other personnel compensation	18,458,226	30,302	30,520	218
Special personal service payments	1,778,068	1,718	1,718	0
				0
Total personnel compensation	724,083,412	733,762	685,111	(48,651)
				0
Personnel benefits	93,203,866	100,661	95,916	(4,745)
Benefits for former personnel	40,617	0	0	0
Travel and transportation of persons	33,977,352	39,770	37,456	(2,314)
Transportation of things	3,595,446	3,188	3,087	(101)
Standard level user charges	59,262,183	78,290	86,164	7,874
Rental payments to others	155,897	157	182	25
Other rent, communications and utilities	77,153,641	99,469	106,032	6,563
Printing and reproduction	12,684,658	9,116	9,179	63
Other services	34,759,211	39,463	41,874	2,411
Supplies and materials	8,360,668	9,066	8,960	(106)
Equipment	21,730,357	25,800	14,522	(11,278)
Grants, subsidies and contributions	1,935,464	2,200	2,200	0
Insurance claims and indemnities	79,279	113	132	19
Undistributed	0	(45,766)	45,766	91,532
Total obligations	1,071,022,051	1,095,289	1,136,581	41,292
Unobligated balance				
Unobligated balance available start of year				
Unobligated balance available end of year				
Total Appropriation, Authorized Level and Budget Estimates	1,071,022,051	1,095,289	1,136,581	41,292

AVERAGE GRADE AND SALARIES

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Average ES Salary	$67,004	$62,663	$62,663
Average GS Salary	$25,945	$25,442	$26,046
Average GS Grade	8.43	8.47	8.44

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(Amounts in thousands)

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Consulting Services	52	222	203
Management and professional Services	92	383	350
Special Studies and Analyses	45	189	172
Management and Support Services for Research and Development	595	753	775
TOTAL	784	1,547	1,500

CONSULTING AND RELATED SERVICES

Consulting and related services are generally used on projects when sophisticated specialized knowledge or when additional related support services are not readily available within our existing expertise or personnel resources. Some of these projects include improving resource allocation and operational program procedures through mathematical models; establishing trends in the nature of international transactions, particularly regarding tax havens; continuing efforts to simplify tax returns; more accurately measuring and analyzing taxpayer reporting burdens; and assessing alternative technologies for the delivery of taxpayer service.

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